



Airfreight & Surface Transportation

House Subcommittee on Railroads
Freight & Passenger Rail: Present & Future Roles,
Performance, Benefits, and Needs
January 28, 2009

Investment In Rail Infrastructure Is Critical

- ▶ Rails are a fuel efficient way to move bulk commodities such as coal, grain, steel, etc.
 - ▶ Rails can move 1 ton of freight 400-450 miles per gallon of fuel – about 3x more fuel efficient than trucks
- ▶ Our channel checks reveal that Railroad rates are about 20% cheaper than comparable lane-by-lane Truck rates
- ▶ Rails can help relieve highway congestion – 1 double-stack Intermodal train can take up to 280 trucks off the nation's congested highways
- ▶ Rails are a pipeline for offshore goods to move within the U.S.
 - ▶ Large shipments of consumer freight that are produced well in advance in Asia and transported by ocean to U.S. ports lend themselves to longer-haul, Rail shipments throughout the nation
- ▶ Safety – Railroads provide a safe way to move hazardous materials, mitigating the risk of an accident with civilians.
 - ▶ The Rails continue to improve their safety levels

Major Capacity Expansion Projects by Railroad

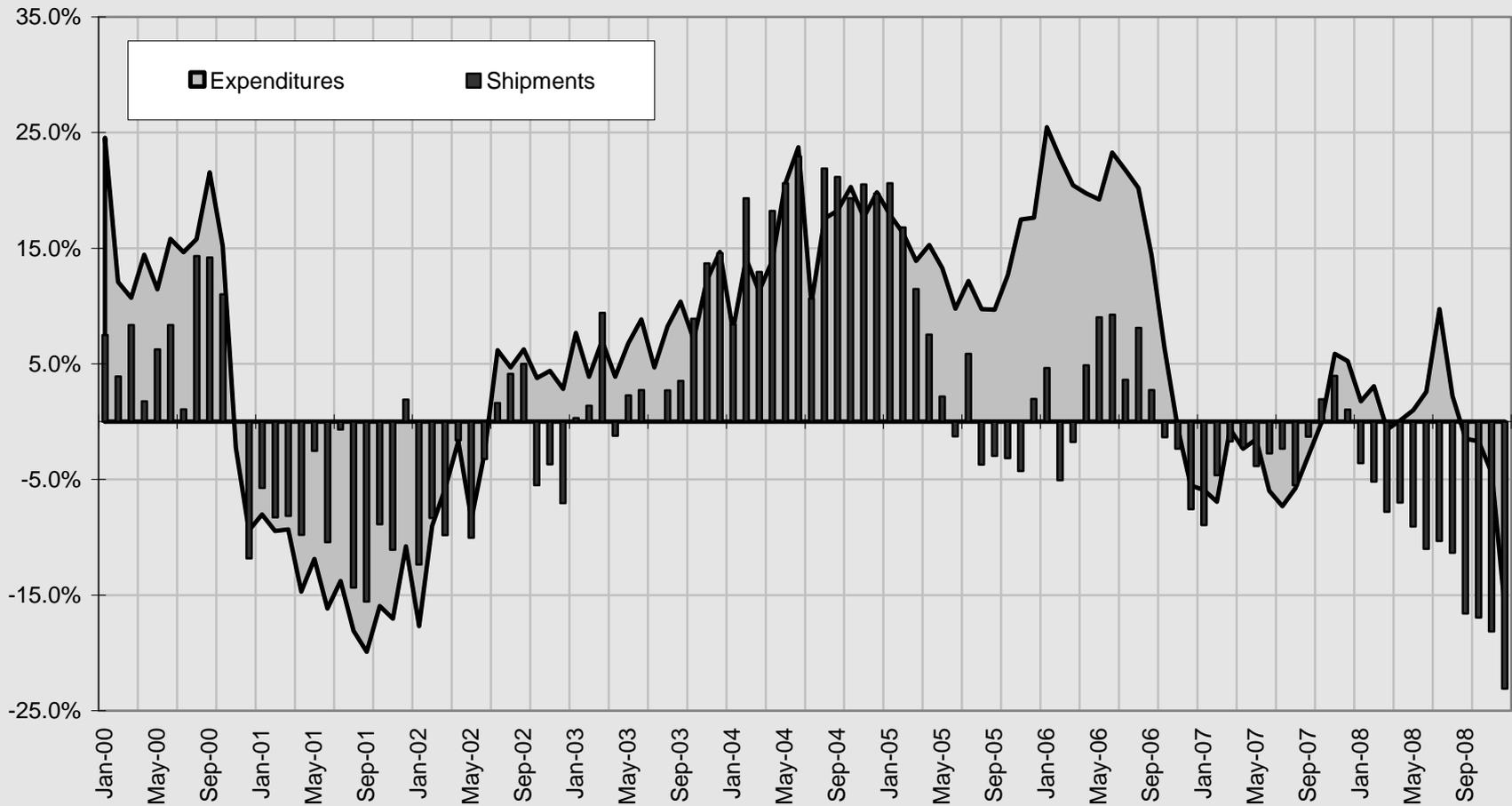
- ▶ The Rails Spent 15%-20% of Total Capital Spending in 2008 on Capacity Expansion.
- ▶ BNSF: Southern Transcon line; PRB track expansion and upgrade; L.A./Long Beach rail and terminal expansion.
- ▶ CSX: National Gateway – public-private partnership to create link between Mid-Atlantic ports and the Midwest; Southeast Corridor – adding extra tracks on Chicago to Florida route.
- ▶ Norfolk Southern: Heartland Corridor – clear route between Norfolk, VA and Chicago, IL to raise the height of 28 tunnels for double-stack container trains; Crescent Corridor – seeking public funding to extend tracks between New York and New Orleans to handle more freight and avoid expensive highway widening.
- ▶ Union Pacific: Sunset Corridor – adding terminals and double-tracking line between L.A. and El Paso, TX, to be completed 2013-2014.
- ▶ Canadian Pacific – Possible build-out into the Powder River Basin coal mines.
- ▶ Canadian National – Recent EJ&E Rail acquisition provides long term solution to Chicago congestion problems.
- ▶ Kansas City Southern: Meridian Speedway (NSC and KSU) – shortcut between Meridian, MS and Shreveport, LA; Victoria-Rosenberg build out – creates more efficient route near Houston, TX.

Summary of Freight Data & Expected Release Dates

Data Series	Date Released	Source	Recent Trend
<u>General Freight Data:</u>			
Cass Freight Index Tracking Expenditures and Shipments	End of Month (3 to 4-week lag)	Cass Information Systems, Inc.	- (December)
<u>Railroad Data:</u>			
Weekly Rail Volumes	Thursday Morning (<1-week lag)	Association of American Railroads	- (January)
<u>Trucking Data:</u>			
Truck Tonnage Index	End of Month (3 to 4-week lag)	American Trucking Associations (ATA)	- (November)
Wolfe Research Truck Bankruptcy Index	Mid-Month (6-week lag)	Federal Bankruptcy Filings	+ (November)
Monthly Class 8 Tractor Builds and Net Orders	Mid-Month (2 to 3-week lag)	A.C.T. Research	- (December)
Truckload Rate Trends by Equipment Type	Mid-Month (2 to 3-week lag)	truckloadrate.com	- (December)
<u>Ocean Data:</u>			
West Coast Port Volumes	Mid-Month (2 to 3-week lag)	Ports of LA, Long Beach and Oakland	- (December)
East Coast Port Volumes ⁽¹⁾	Mid-Month (2 to 3-week lag)	Ports of NY/NJ, Savannah, Norfolk and Charleston	- (November)
Ocean Containership Pricing	1st Week of Month (1-week lag)	Clarkson Research Services	- (December)
<u>Airfreight Data:</u>			
U.S. Domestic and International Air Cargo RTMs	After the 30th (4-week lag)	Air Transport Association (ATA)	- (November)
International (Cross Border) Air Cargo FTKs and ATKs ⁽²⁾	End of Month (4-week lag)	International Air Transport Association (IATA)	- (November)
European and Asian Air Cargo FTKs	End of Month (8-week lag)	Association of European Airlines (AEA)	- (November)
		Association of Asian Pacific Airlines (AAPA)	- (December)

Note: Recent trend compares most recent monthly data point (shown in parenthesis) with prior month; "+" represents sequential increase/improvement in y/y metric versus prior month. (1) Port of New York and New Jersey data reported on a roughly six week lagged basis. Currently reported through October. (2) Freight-Tonne-Kilometer (FTK) and Available-Tonne-Kilometer (ATK). Source: Wolfe Research, LLC.

Cass Freight Index Tracking Expenditures (Including Fuel) and Shipments (Year-over-Year Growth)



Source: Cass Information Systems, Inc.; Wolfe Research, LLC.

An Overview of the Freight Recession Across Modes

	ATA Truck	Domestic Air	US Class I Rail	West Coast Port Volumes		
	Tonnage	Cargo Ton Miles	Volumes ⁽¹⁾	Imports	Exports	Combined
Nov-05	3.7%	3.5%	1.8%	0.3%	4.9%	1.6%
Dec-05	2.8%	-1.1%	6.1%	7.8%	9.0%	8.2%
Jan-06	-3.0%	-0.5%	5.7%	11.7%	14.0%	12.3%
Feb-06	-0.9%	-0.5%	-0.8%	-7.0%	11.7%	-1.5%
Mar-06	-1.1%	2.1%	2.6%	32.9%	12.9%	25.9%
Apr-06	-0.7%	2.7%	2.7%	14.5%	2.0%	10.8%
May-06	0.4%	7.5%	5.4%	13.6%	8.8%	12.2%
Jun-06	0.6%	4.5%	5.6%	11.4%	8.3%	10.6%
Jul-06	0.1%	1.3%	4.3%	9.9%	5.5%	8.7%
Aug-06	-3.7%	9.1%	3.9%	14.9%	7.8%	12.9%
Sep-06	-0.9%	0.7%	2.6%	11.0%	10.8%	11.0%
Oct-06	-2.3%	-0.4%	1.3%	10.7%	15.9%	12.1%
Nov-06	-6.9%	0.3%	-1.0%	11.9%	8.7%	11.0%
Dec-06	-2.2%	-5.2%	1.5%	7.2%	11.3%	8.4%
Jan-07	-4.5%	2.0%	-4.5%	6.5%	15.5%	9.0%
Feb-07	-1.8%	-0.6%	-2.2%	25.7%	4.4%	18.6%
Mar-07	1.2%	-3.3%	-1.5%	-8.4%	2.2%	-5.0%
Apr-07	-2.5%	-3.9%	-3.0%	-2.7%	9.4%	0.7%
May-07	-3.1%	3.2%	-3.0%	-1.7%	10.3%	1.8%
Jun-07	-3.5%	-2.3%	-2.2%	2.8%	23.1%	8.2%
Jul-07	-3.3%	2.1%	-2.6%	1.1%	17.8%	5.6%
Aug-07	0.6%	0.5%	-2.7%	-6.6%	20.4%	0.5%
Sep-07	-2.2%	-1.3%	-1.9%	-1.1%	19.5%	4.3%
Oct-07	-1.3%	1.1%	-1.7%	-4.9%	19.1%	1.8%
Nov-07	2.6%	1.6%	1.6%	-3.2%	22.5%	3.9%
Dec-07	0.7%	0.1%	-3.0%	-2.9%	18.4%	3.6%
Jan-08	5.3%	3.1%	-2.1%	-8.4%	12.3%	-2.3%
Feb-08	3.4%	3.8%	0.6%	-8.2%	31.9%	3.5%
Mar-08	1.5%	-5.5%	-3.8%	-8.6%	21.0%	1.4%
Apr-08	2.2%	5.6%	-1.2%	-8.8%	24.1%	1.0%
May-08	3.2%	-3.5%	-1.6%	-5.8%	18.9%	1.8%
Jun-08	5.3%	-8.6%	-4.7%	-12.8%	11.7%	-5.3%
Jul-08	3.8%	0.0%	-1.2%	-10.0%	18.5%	-1.4%
Aug-08	2.5%	-11.8%	-1.8%	-3.3%	13.1%	1.9%
Sep-08	0.9%	-9.6%	-5.1%	-11.5%	1.6%	-7.6%
Oct-08	-1.8%	-6.0%	-3.7%	-6.5%	-9.6%	-7.5%
Nov-08	-1.9%	-18.7%	-9.1%	-12.2%	-19.5%	-14.6%
Dec-08	NA	NA	-16.1%	-18.8%	-27.4%	-21.8%
Jan-09			-17.8%			

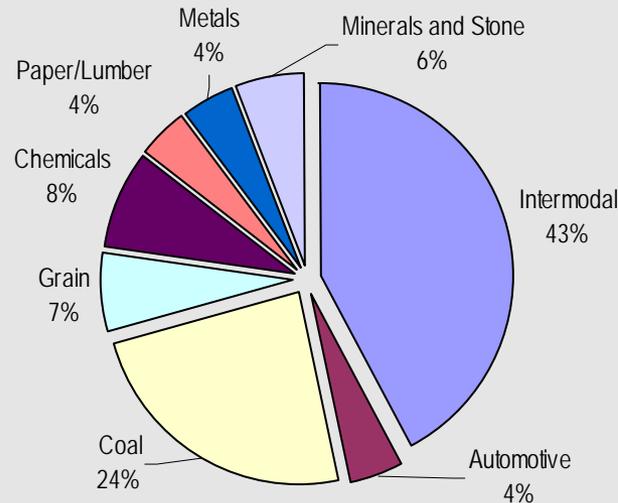
(1) January Rail volumes shown through week ending January 17.

Source: American Trucking Associations; Air Transport Association; Association of American Railroads; Port of Los Angeles, Port of Long Beach; Port of Oakland; Wolfe Research, LLC.

Annual & Quarterly Rail Volume Growth By Segment

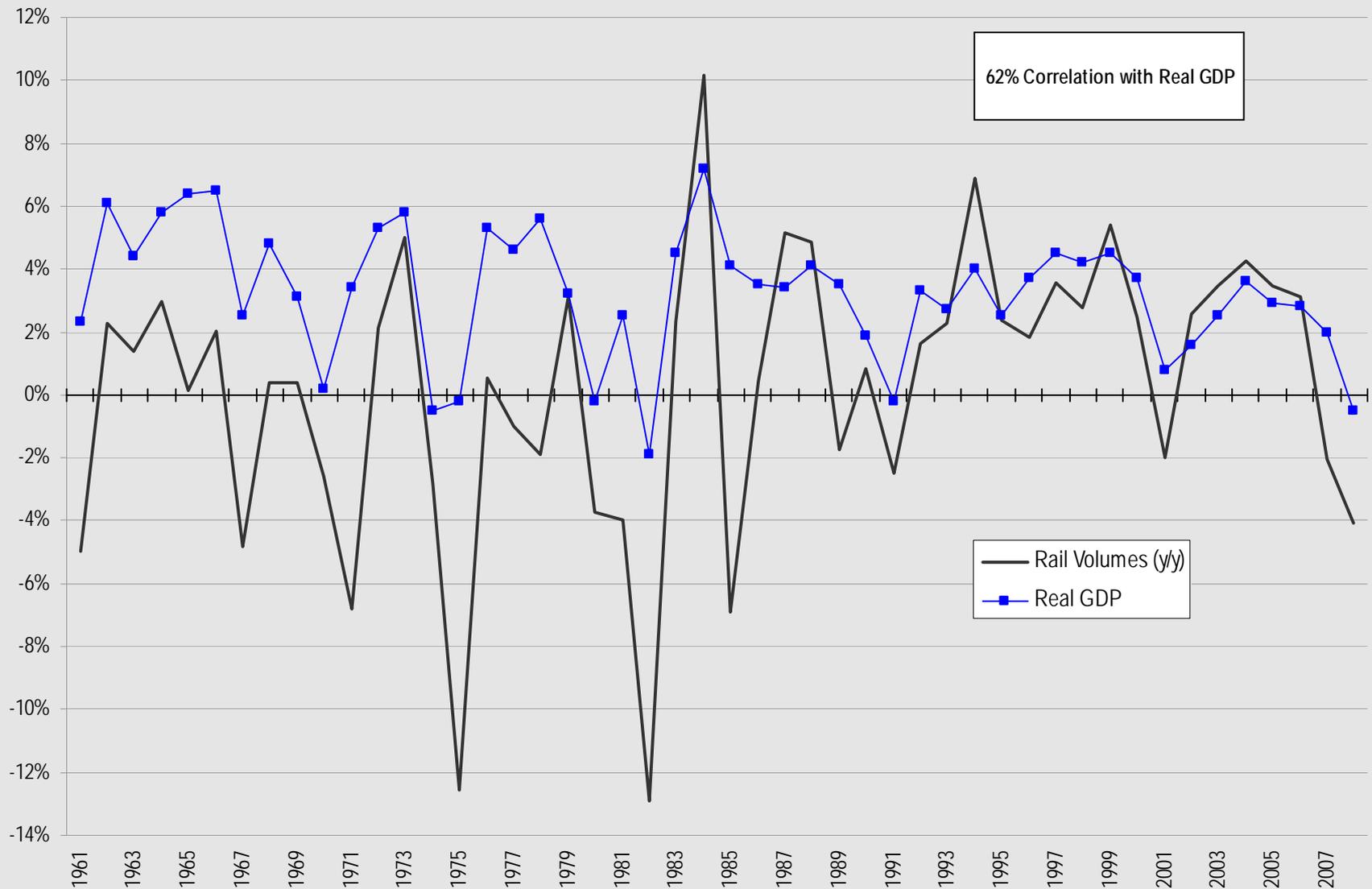
	2003	2004	2005	2006	2007	2008	1Q07	2Q07	3Q07	4Q07	1Q08	2Q08	3Q08	4Q08
Intermodal	6.3%	8.3%	5.4%	4.4%	-2.8%	-4.9%	-0.5%	-3.0%	-3.8%	-3.6%	-4.4%	-3.2%	-3.1%	-8.4%
Automotive	-3.1%	-1.7%	-2.9%	-3.8%	-3.1%	-21.9%	-9.9%	-3.8%	3.3%	-0.3%	-12.0%	-20.8%	-24.3%	-30.3%
Coal	-1.3%	2.7%	2.2%	4.1%	-1.3%	3.1%	-1.9%	-2.6%	-0.7%	-0.1%	4.0%	2.1%	3.9%	3.0%
Grain	2.3%	2.1%	0.1%	4.7%	-0.9%	-2.3%	-4.9%	-3.9%	1.4%	3.9%	6.3%	5.5%	-6.1%	-11.8%
Chemicals	1.5%	5.0%	-1.5%	-0.8%	5.2%	-3.9%	5.6%	6.6%	3.2%	5.5%	2.1%	0.0%	-2.1%	-14.2%
Paper/Lumber	0.5%	5.8%	-1.3%	-7.7%	-13.6%	-13.7%	-16.0%	-12.3%	-12.7%	-13.1%	-15.7%	-12.5%	-10.4%	-15.5%
Metals	3.8%	7.7%	-1.8%	4.6%	-3.0%	-3.8%	-5.0%	-2.6%	-6.0%	2.1%	2.3%	3.8%	5.0%	-24.9%
Minerals/Stone	2.8%	4.9%	1.7%	-2.0%	-5.5%	-6.7%	-9.5%	-6.4%	-5.2%	-0.6%	-4.9%	-3.6%	-4.8%	-12.5%
Total	2.7%	5.2%	3.1%	2.8%	-2.3%	-4.1%	-2.8%	-2.8%	-2.4%	-1.0%	-1.7%	-2.4%	-2.6%	-8.8%
Real GDP	2.5%	3.6%	2.9%	2.8%	2.0%	-0.5%	0.1%	4.8%	4.8%	-0.2%	0.9%	2.8%	-0.5%	-5.0%
Industrial Production (y/y)	1.5%	3.1%	4.2%	2.8%	1.8%	-2.4%	0.9%	1.7%	2.2%	2.5%	2.0%	-0.2%	-3.5%	-7.7%

2008 Volume Breakout by Commodity



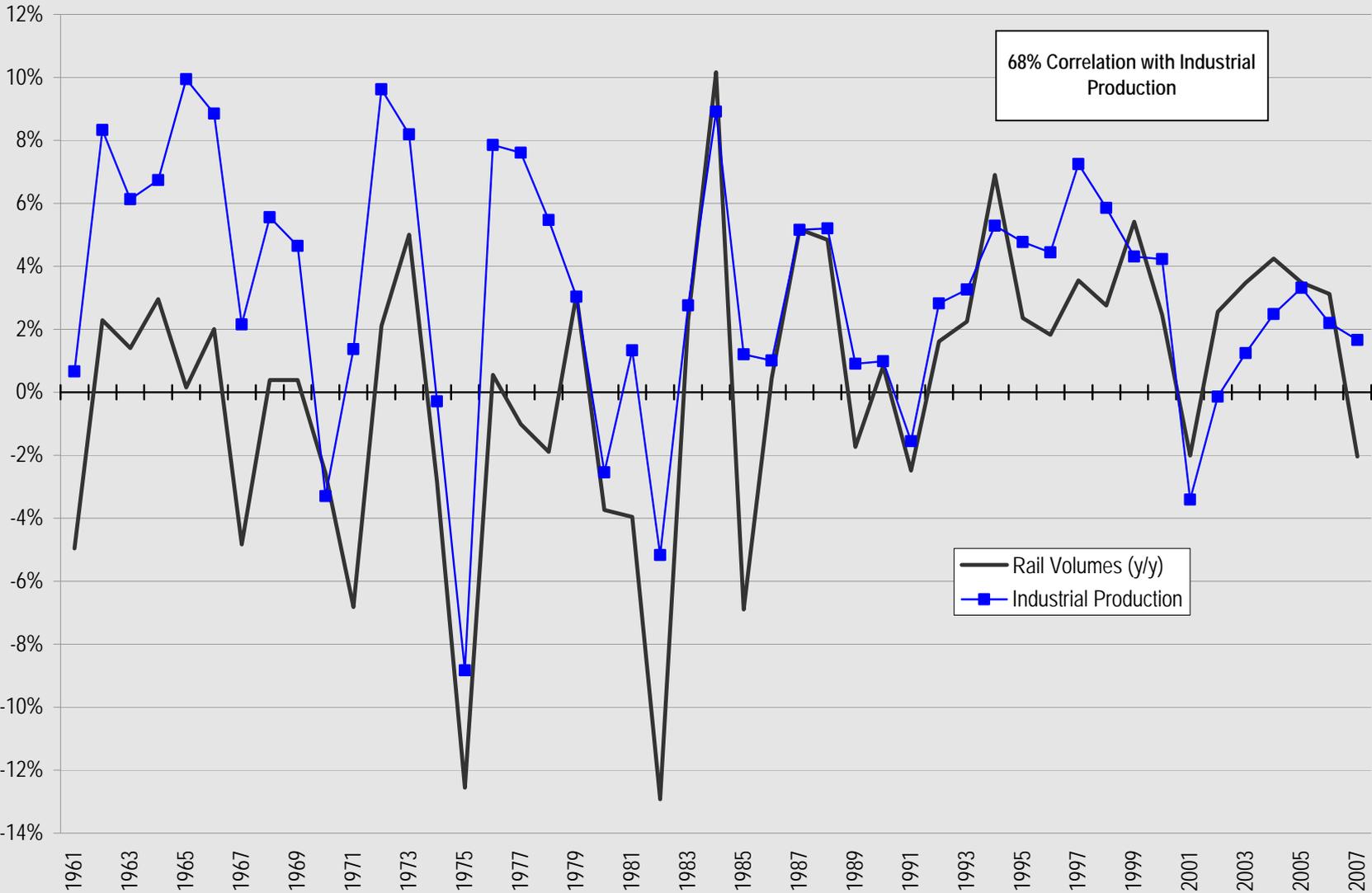
Note: 4Q:08 GDP based on Wolfe Research estimate. Source: Association of American Railroads; Bureau of Economic Analysis; Federal Reserve; Wolfe Research, LLC estimates.

Total Annual Rail Volumes Versus GDP



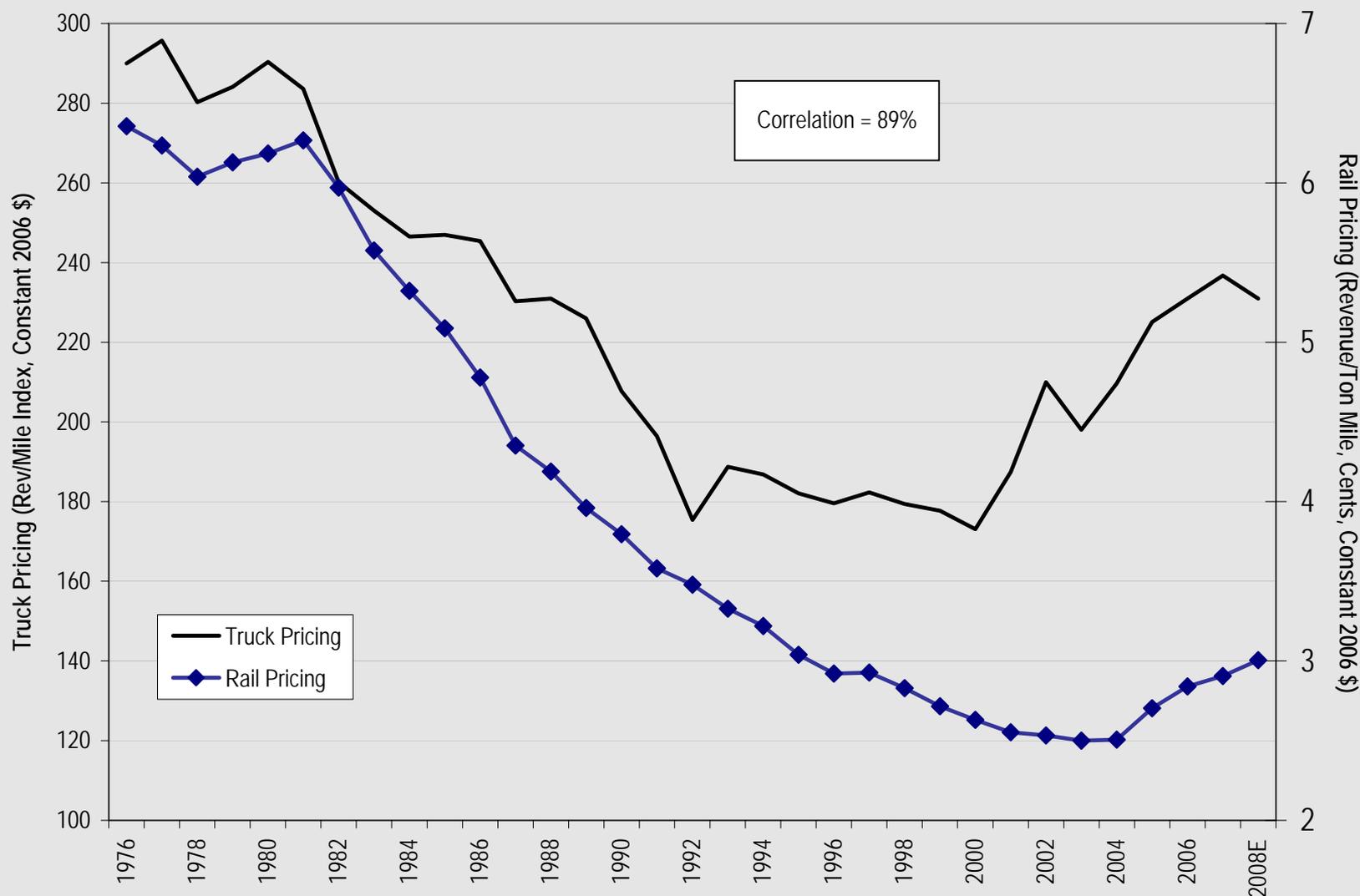
Source: Association of American Railroads; Bureau of Economic Analysis; Wolfe Research, LLC.

Total Annual Rail Volumes Versus Industrial Production



Source: Association of American Railroads; Federal Reserve; Wolfe Research, LLC.

Truck Versus Rail Pricing



Source: Association of American Railroads; American Trucking Associations; Company reports; Wolfe Research, LLC estimates.

Rail Capital Spending Well Above Broader Market

Total Capital Spending (\$ in Millions)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008E	2009E	5-Yr. Avg.	10-Yr. Avg.
BNI	\$1,935	\$2,714	\$2,598	\$2,767	\$2,526	\$1,762	\$1,608	\$1,505	\$1,726	\$1,990	\$2,179	\$2,071	\$2,598	\$2,850	\$2,700	\$2,338	\$2,082
CNI (US\$)	410	398	663	724	738	743	684	598	749	825	975	1,141	1,296	1,347	1,138	\$1,117	\$910
CP (US\$)	519	393	620	738	567	385	359	357	493	519	731	698	834	853	671	\$727	\$580
CSX	972	1,220	943	1,115	1,256	859	879	1,036	1,059	1,030	1,136	1,639	1,773	1,740	1,600	\$1,464	\$1,241
NSC	939	957	960	956	912	731	746	695	720	1,041	1,025	1,178	1,341	1,505	1,400	\$1,218	\$989
UNP	1,903	2,076	2,101	2,110	2,158	2,315	2,196	2,359	2,071	2,402	2,863	2,729	3,096	3,100	2,800	\$2,838	\$2,529
Total (US\$)	\$6,678	\$7,759	\$7,885	\$8,410	\$8,157	\$6,795	\$6,472	\$6,550	\$6,818	\$7,807	\$8,908	\$9,456	\$10,938	\$11,396	\$10,308	\$9,701	\$8,330
Canadian Rails	929	792	1,283	1,462	1,305	1,128	1,043	955	1,242	1,344	1,705	1,839	2,130	2,201	1,809	1,844	1,489
US Rails	5,749	6,967	6,602	6,948	6,852	5,667	5,429	5,595	5,576	6,463	7,203	7,617	8,808	9,195	8,500	7,857	6,841

% Change (Y-o-Y)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008E	2009E	5-Yr. Avg.	10-Yr. Avg.
BNI	-	40.3%	-4.3%	6.5%	-8.7%	-30.2%	-8.7%	-6.4%	14.7%	15.3%	9.5%	-5.0%	25.4%	9.7%	-5.3%	11.0%	1.6%
CNI	-	-2.9%	66.5%	9.2%	1.9%	0.7%	-8.0%	-12.6%	25.2%	10.2%	18.1%	17.1%	13.5%	4.0%	-15.6%	12.6%	7.0%
CP	-	-24.2%	57.6%	19.1%	-23.2%	-32.2%	-6.7%	-0.7%	38.4%	5.1%	40.9%	-4.5%	19.6%	2.2%	-21.4%	12.7%	3.9%
CSX	9.3%	25.4%	-22.7%	18.2%	12.6%	-31.6%	2.3%	17.9%	2.2%	-2.7%	10.3%	44.3%	8.2%	-1.9%	-8.0%	11.6%	6.2%
NSC	-6.9%	2.0%	0.3%	-0.4%	-4.6%	-19.8%	2.1%	-6.8%	3.6%	44.6%	-1.5%	14.9%	13.8%	12.2%	-7.0%	16.8%	5.8%
UNP	29.0%	9.1%	1.2%	0.4%	2.3%	7.3%	-5.1%	7.4%	-12.2%	16.0%	19.2%	-4.7%	13.4%	0.1%	-9.7%	8.8%	4.4%
Total (US\$)	13.1%	16.2%	1.6%	6.7%	-3.0%	-16.7%	-4.8%	1.2%	4.1%	14.5%	14.1%	6.1%	15.7%	4.2%	-9.5%	10.9%	3.5%

% of Revenue

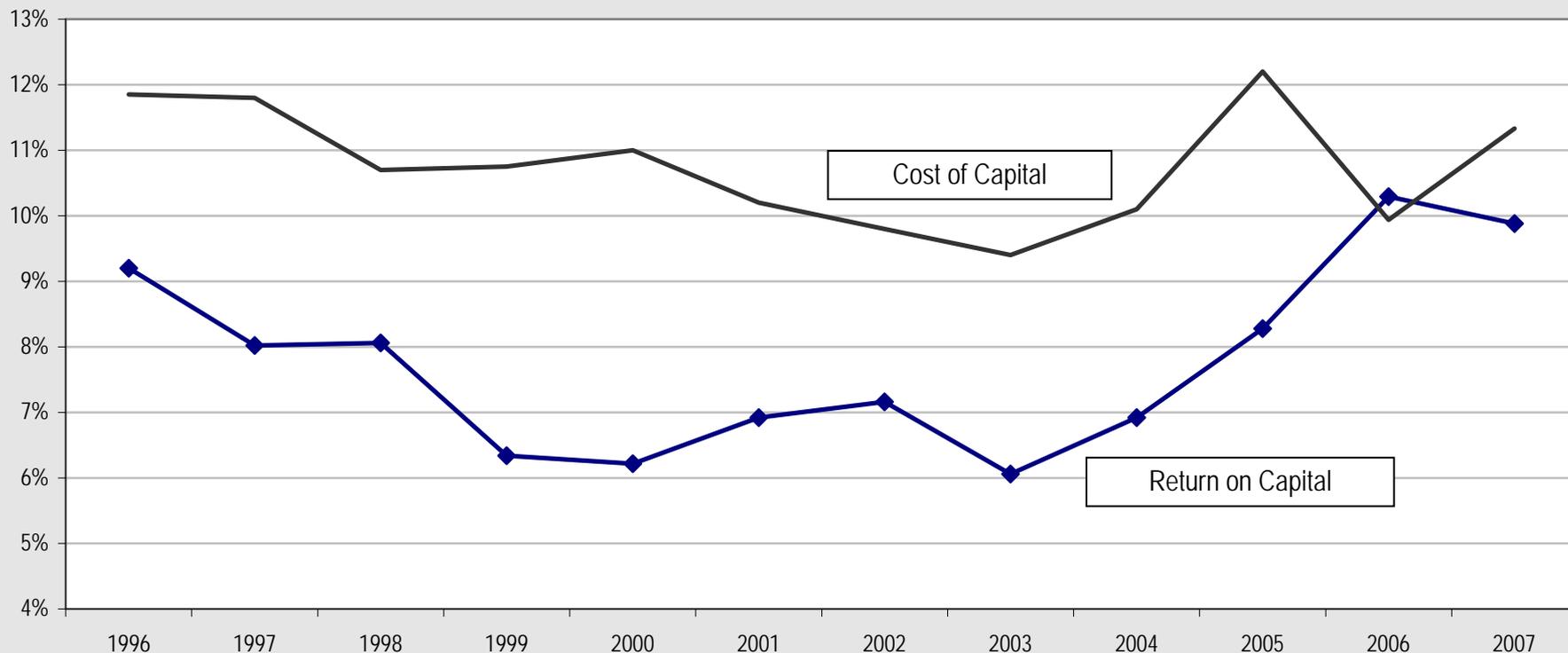
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008E	2009E	5-Yr. Avg.	10-Yr. Avg.
BNI	23.7%	33.1%	30.9%	30.9%	27.5%	19.1%	17.5%	16.8%	18.3%	18.2%	16.8%	13.8%	16.4%	15.8%	18.0%	16.2%	18.0%
CNI	10.7%	10.5%	17.5%	20.9%	20.9%	20.3%	18.7%	15.4%	17.7%	15.9%	15.8%	16.4%	17.6%	16.8%	17.0%	16.5%	17.5%
CP	18.7%	14.5%	24.5%	31.5%	24.1%	15.6%	15.0%	15.3%	18.8%	17.3%	20.1%	17.3%	19.0%	18.5%	17.3%	18.4%	18.1%
CSX	13.7%	17.1%	12.4%	15.6%	19.1%	11.9%	12.2%	14.4%	14.2%	12.8%	13.2%	17.1%	17.7%	15.5%	16.7%	15.3%	14.8%
NSC	15.2%	15.3%	15.1%	15.4%	14.7%	11.9%	12.1%	11.1%	11.1%	14.2%	12.1%	12.5%	14.3%	14.0%	14.8%	13.4%	12.8%
UNP	20.1%	20.5%	21.0%	22.3%	21.2%	21.4%	20.3%	21.1%	17.9%	19.7%	21.1%	17.5%	19.0%	17.3%	18.2%	18.9%	19.7%
Total Class I's	17.0%	18.5%	20.2%	22.8%	21.2%	16.7%	16.0%	15.7%	16.4%	16.3%	16.5%	15.8%	17.3%	16.3%	17.0%	16.5%	16.8%

DJ 30 Industrial Avg.	8.4%	8.1%	8.3%	8.4%	7.7%	7.9%	8.4%	6.6%	5.7%	5.6%	5.9%	6.1%	6.1%			5.9%	6.7%
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Note: 5-year average includes period from 2004-2008E; 10-year average includes period from 1999-2008; Includes off-balance sheet leases; Excludes JPM from DJIA.

Source: FactSet Research Systems Inc; Company reports; Wolfe Research, LLC estimates.

Railroad Returns Versus Industry Cost of Capital



	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
BNI	8.6%	8.4%	9.7%	9.5%	8.8%	7.1%	6.4%	6.2%	5.8%	9.8%	11.4%	10.0%
CSX	8.9%	9.8%	8.1%	3.8%	3.6%	4.6%	5.2%	4.0%	4.4%	6.2%	8.2%	7.6%
KSU	7.2%	3.6%	9.1%	6.4%	6.3%	7.0%	6.5%	3.7%	8.3%	5.9%	9.3%	9.4%
NSC	13.0%	13.1%	10.5%	5.2%	5.5%	8.3%	9.1%	9.1%	11.6%	13.2%	14.4%	13.6%
UNP	8.3%	5.2%	2.9%	6.8%	6.9%	7.6%	8.6%	7.3%	4.5%	6.3%	8.2%	8.9%
Average Rail ROTC	9.2%	8.0%	8.1%	6.3%	6.2%	6.9%	7.2%	6.1%	6.9%	8.3%	10.3%	9.9%
STB Cost of Capital	11.9%	11.8%	10.7%	10.8%	11.0%	10.2%	9.8%	9.4%	10.1%	12.2%	9.9%	11.3%

Note: Shown as average of BNI, CSX, NSC, KSU and UNP. Source: Surface Transportation Board; Wolfe Research, LLC.

Wolfe Research C09 Estimates

► Our Estimates Today Versus Six Months Ago and Compared with Prior 5-Year Average

	Wolfe Research 2009 Forecasts		Prior 5-year Average
	Today	Six Months Ago	
Total Volumes (y/y)	-6%	2%	1%
Total Revenue Per Carload, Gross of fuel (y/y)	-9%	5%	10%
Total Revenue Per Carload, Net of fuel (y/y)	4%	6%	5%
Total Revenue Growth (y/y)	-14%	7%	10%
Continuing EPS Growth (y/y)	-16%	20%	27%

Note: Based on averages of four major U.S. railroads – BNI, CSX, NSC and UNP. Prior 5-year average based on 2004-2008 period. Source: Company reports; Wolfe Research estimates.

Historical Annual Transportation Sector Performance

	C03	C04	C05	C06	C07	C08	00-08 CAGR ⁽¹⁾
Airfreight & Logistics Average	62.7%	60.2%	20.8%	8.5%	-3.3%	-21.0%	7.1%
Trucking Average	35.3%	41.9%	-1.5%	-4.8%	-19.1%	-12.9%	7.2%
Railroad Average	34.1%	26.4%	29.6%	15.3%	7.6%	-20.3%	11.5%
All Our Transport Universe	43.1%	42.7%	14.1%	5.3%	-6.3%	-17.6%	8.4%
S&P 500	26.4%	9.0%	3.0%	13.6%	3.5%	-38.5%	-5.3%

Recent Transportation Sector Performance

	1H06	2H06	1H07	2H07	1H08	2H08
Airfreight & Logistics Average	23.1%	-9.8%	7.8%	-10.3%	3.7%	-23.4%
Trucking Average	19.5%	-19.8%	11.8%	-28.6%	12.0%	-23.4%
Railroad Average	21.8%	-4.9%	16.3%	-8.8%	25.4%	-36.2%
All Our Transport Universe	21.3%	-12.3%	11.8%	-16.9%	13.2%	-27.1%
S&P 500	1.8%	11.7%	6.0%	-2.3%	-12.8%	-29.4%

	1Q08	2Q08	3Q08	4Q08	1Q09 ⁽²⁾
Airfreight & Logistics Average	6.5%	-3.0%	-6.9%	-16.9%	-15.7%
Trucking Average	12.1%	-0.9%	-1.1%	-23.6%	-11.6%
Railroad Average	13.3%	10.9%	-5.8%	-32.6%	-14.0%
All Our Transport Universe	10.6%	1.8%	-4.3%	-24.0%	-13.6%
S&P 500	-9.9%	-3.2%	-8.9%	-22.6%	-8.4%

Note: Airfreight & Logistics avg includes FDX, TNT, UPS, CHRW, EXPD, FWRD, HUBG, LSTR, UACL, UTIW; Truck avg includes CLDN, CVTI, HTLD, JBHT, KNX, WERN, ABFS, CNW, ODFL, SAIA, YRCW, R; Rail avg includes BNI, CNI, CP, CSX, NSC, UNP, GWR, KSU, PACR. (1) Reflects nine-year CAGR from 12/31/99 to 12/31/08 unless otherwise stated. Note: UACL started trading on 2/11/05; reflects three-year CAGR from end of 2005. UTIW started trading on 11/2/00; reflects eight-year CAGR from end of 2000. SAIA started trading on 9/11/02; reflects six-year CAGR from end of 2002. CP started trading on 9/11/02; reflects six-year CAGR from end of 2002. KSU started trading separately from Stillwell Financial on 7/13/00; reflects eight-year CAGR from end of 2000. PACR started trading on 6/21/02; reflects six-year CAGR from end of 2002. (2) 1Q:09 stock performance through 01/22/09.

Source: FactSet Research Systems Inc.; Wolfe Research, LLC.

