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The Railroad Week in Review 10/4/2002

West Coast docks remain at a standstill as dockworker union representatives and the Pacific Maritime Association (PMA) representing steamship and terminal operators remain at odds over productivity issues. According to one report the average stevedore can earn more than $100,000 a year straight time so money is not the issue. It appears it's more to do with automating certain clerical processes to be in line with other transport modes and the rest of the world's ports.

The impact on railroads is expected to be minimal, at worst pushing the revenues from boatloads now at sea into 4Q02. How late depends on how fast federal mediators get into the act, and that in turn depends on pressure from trade groups like the National Retail Federation and automakers. Morgan Stanley's Jim Valentine writes, "We expect any EPS impacts are likely confined to 4Q02." On Monday UP said it would stop sending containers to the 29 affected ports and would look to consolidate eastbound trains as inventories of grounded boxes shrink.

CSX Lines, a unit of CSX Corp., is one of the two ocean carriers operating between Tacoma and Alaska. In a special notice at www.csx.com Lines says they will continue to take bookings for future sailings though the ports in Tacoma, Oakland and LA remain closed. Shippers with intermodal loads from the US interior are advised to store them off-site until further notice.

BNSF lowered Q3 guidance, expecting now to earn 50 to 52 cents a share this quarter, down from First Call's 56 cents, based on severely depressed grain loadings and the West Coast dock situation. At the same time BNSF said it will take a non-cash increase in pre-tax pension expense of $11 mm in Q3 and $4 mm in Q4. Finally, there will be a $4 mm one-time pre-tax employee-related transition charge relating to the previously announced outsourcing agreement with IBM. Elsewhere, BNSF will purchase outright the 100-mile ex-MILW stretch between Council Bluffs and Bayard, Iowa. For the past 20 years a shippers group has owned the line with BNSF as the contract operator.

AAR Carload data can be quite helpful in seeing where the business is headed, at least from a class 1 railroad viewpoint. But what about the Class 2s and 3s? One can argue that the trends for the 500+ regional and terminal railroads are more or less baked into the class 1 numbers because practically everything handled by the smaller carriers touches a class 1 at some point. According to one shortline operator, himself a former class 1 marketeer, "It's possible that class 1 records show more growth in shortlines because of a combination of line sales, new shortline business, and increases in old business."

He then suggests the numbers could be even better but for class 1 score-keeping. "They seem to take what ever rail rate they need for the movement and then add on the shortline division of revenue. The shortline payment goes into the class 1 traffic report as a 'deduct' which puts a flag on shortline related traffic in terms of profit levels." As a result, traffic does not move lest it be points off the BDA's score. And it explains shipper comments like this one from two weeks ago: "The class 1 told me your shortline revenue requirement is an add-on so we'll use truck."

Still, we keep hearing reports that shortline 1 carloads are growing at a faster rate than the class 1s are seeing. So two weeks ago I set out to find out where and how this was happening. To compare apples-to-apples the AAR commodity list was augmented with STCC codes and sent in spreadsheet form to about 200 shortlines. I asked for the five largest commodity groups and their yoy changes as of Sep 21 (AAR's Week 38). The rate of response was initially slow but seems to be accelerating. Film at eleven.

Reader feedback wanted! The attached shows yoy changes in class 1 carloads through 9/21/2002. I've flagged four key commodity groups plus total commodity and intermodal container changes. Then I backed out the intermodal to get percent total traffic represented by all commodities. Backing out coal gave me merchandise carloads as a percent of the whole commodity mix.

Is there a link between carload business and stock price? Take the merchandise carload to intermodal mix and compare it to stock price performance. For the Big Four class 1 roads stock prices are up where the carload-to-intermodal ratio is high (NS, UP) and down where it is lower (BNSF, CSX). The Hatch/Brown Intermodal Study (WIR 9/20) says the opportunities for continued intermodal growth are excellent, yet the argument continues to be made that margins on box traffic are less than they are on carload traffic.

My charge to you: Is it mere coincidence that stock price appreciation runs in direct proportion to commodity carloads? Is there a case to be made that the carload business is more profitable and thus more valuable to stakeholders? All responses will be held in confidence.

Looks like Ed Burhardt's Rail World group will get to run Maine's BAR as the Oct 1 deadline passed with no additional bidders. Thus the BAR Trustee will ask the Bankruptcy Court to give final approval to an Asset Purchase Agreement with Rail World subsidiary Montreal, Maine & Atlantic Railway (MMA). In a related transaction MMA will acquire CP lines in Southern Quebec and Vermont that were previously leased to the Quebec Southern Railway (QSR). This gets the former BAR access to Montreal and Vermont.

Man Bites Dog Dept. Usually we think of shortlines as feeders to and from the core systems but occasionally we see something entirely different. In a particularly elegant turn Pennsylvania shortlines Reading & Northern and Shamokin Valley joined forces to feed coal to a coal-fired power plant on NS. The shortlines have 77% of the miles and there had been no through service over this portion of the former Reading Railroad in more than 20 years.

Anthracite silt is loaded at the R&N-served Greenwood breaker of Lehigh Coal Company and moves 31 miles west to the SVRR tracks at Mt Carmel Jct. for the 28-mile haul to the NS at Sunbury on the former PRR Buffalo line. NS makes a short 9-mile jog south and west to the plant at Sellinsgrove.* The goal is for two 50-car trains a week. What makes it work is a saving of more than 120 miles one way via R&N-NS, down to Reading, out to Harrisburg, up to Sunbury, and out to Sellinsgrove. Four trains at least vs. just one. Elegant.

*See map PA-9, page 61, in Steam Powered Video's Northeast map book.

Roy Blanchard provides railroad financial and operating performance measurements for shortlines and shippers. Disclosure: Blanchard may from time to time hold long, short, or debt positions in the companies mentioned here. A list of such holdings is available on request.

Class Is vs AAR Week 38 (9/21)

YTD	AAR	**BNSF**	**CN**	**CP**	**CSX**	**KCS**	**NS**	**UP**
Grain	-3.1%	-9.1%	Na	-19.7%	na	4.1%	na	-0.3%
Coal	-3.6%	-1.4%	-9.0%	-8.3%	-9.3%	6.0%	-7.4%	0.2%
Chems	2.0%	1.3%	6.6%	2.1%	0.6%	6.7%	0.8%	1.7%
Automotive		na	10.0%	na	4.1%	na	7.3%	na
TTL Comm.	-1.2%	-3.7%	-1.5%	-5.6%	-2.7%	-0.7%	-1.7%	1.3%
Intermodal	5.7%	5.6%	3.7%	7.9%	4.7%	4.1%	8.1%	6.2%
Int as %	22.2%	29.3%	17.7%	23.6%	28.4%	16.7%	20.8%	21.5%
Comm as %	77.8%	70.7%	82.3%	76.4%	71.6%	83.3%	79.2%	78.5%
Coal as %	32.5%	33.0%	14.1%	17.7%	22.4%	26.2%	33.6%	27.8%
non-coal %	45.3%	37.7%	68.2%	58.7%	49.2%	57.1%	45.6%	50.7%
CL vs. IM	2.04	1.29	3.85	2.49	1.73	3.42	2.19	2.36
Stock price								
12/28/01		$ 28.98	$ 49.21	$ 20.31	$ 35.12	$ 15.04	$ 18.67	$ 57.18
9/23/02		$ 25.91	$ 39.43	$ 18.46	$ 28.53	$ 12.90	$ 21.03	$ 58.89
change		-11%	-20%	-9%	-19%	-14%	13%	3%