

# THE RAILROAD WEEK IN REVIEW

## July 5, 2013

*“Independent short lines will continue to go away as the more viable roads are bought by the big operators and many other small rails become trails.” Myself, TRAINS, Feb, 2008*

**June 29 marked the end of Week 26** and the second quarter for AAR railroad volumes. I would not say it was particularly good for the merchandise carload sector that the Class II and III railroad community depends on for its bread and butter.

AAR Class Is	YTD Wk 26		
Commodity	2013	2012	Pct Chg
<b>Total Units</b>	17,529,659	17,287,632	1.4%
<b>intermodal</b>	7,878,808	7,597,693	3.7%
<b>Net</b>	9,650,851	9,689,939	(0.4%)
<b>auto</b>	661,416	652,928	1.3%
<b>Net</b>	8,989,435	9,037,011	(0.5%)
<b>coal</b>	3,086,703	3,215,316	(4.0%)
<b>Net</b>	5,902,732	5,821,695	1.4%
<b>Petroleum</b>	524,324	378,847	38.4%
<b>SL Commodities</b>	5,378,408	5,442,848	(1.2%)
<b>Source: AAR</b>			

Total volume, intermodal included, was up 1.4 percent year-over year. Now back out the commodity lines that most short lines don't see much of: coal, automotive and petroleum products (largely crude-by-rail in unit trains). What's left are the commodity groups where short lines live: chems ex-petrol, Food STCCs 01 and 20, Forest STCCs 24 and 26, met ores and metals, and aggregates in general. Down 1.2 percent. Moreover, these groups made up 31.5 percent of all traffic a year ago; as of the 2013 Week 26 they're down to 30.7 percent.

Hard to tell where it's going. Liz Ann Sonders, Senior Vice President, Chief Investment Strategist, Charles Schwab & Co., writes in her July 1 "Long Train Running,"

Notwithstanding the downward revision to the very backward-looking first quarter real gross domestic product (GDP) reading, the latest economic numbers have turned up. Capital spending is picking up; the regional manufacturing surveys were generally quite strong; consumer confidence has jumped; and the housing numbers have continued their surge... Earnings seasons can often provide a boost to the stock market. We are in the very early stages of second quarter reporting season but it is clear that the trough in earnings estimates was hit in last year's third quarter.

Manufacturing and housing picking up? I'm not so sure. This flat-to down trend among commodities crucial to short lines and regional rails is not going to reverse until (a) consumer durables from new homes to refrigerators see sharper upticks and (b) first-mile, last-mile carload service gets as good as the dray services to and from the intermodal terminals.

Because we're just coming off the recent NS shortline meeting, I thought it would be helpful to run the NS-CSX carload comps. I carefully picked the STCCs representing eight commodity groups and charted the trends 1Q2010 through 1Q2013.

Using the 5-digit STCCs on the USRaildesktop.com, I chose only the 30 commodities that show more than 100,000 annual carloads for all railroads reporting. I've sorted them into three broad groups: Heat & Eat (energy and food-related), manufacturing, and construction.

Group	STCC	Commod	Trend
<b>Energy</b>	14413	Industrial sand	up
	28184	Ethanol	down
<b>Food</b>	01132	Corn	down
	14714	Phosphates	down
<b>Manufacturing</b>	28211	Plastics	flat
	33123	Coil Steel	flat
	40211	Scrap Steel	down
<b>Construction</b>	28211	Lumber	down
<i>Source: US Raildesktop.com</i>			

Of these 30, the "heat and eat" group has 11 commodities. The "eat" side goes from corn to phosphates to soy meal to corn sweeteners. The "heat" side is energy ex-coal and covers such diverse groups as frac sand, ethanol, and LPG. Manufacturing includes stuff out of which you make other stuff and construction runs the gamut from cement to wood products.

I suspect there are three reasons why merch carloads are, to be polite, soft. They are, either singly or in combination: the business is flat gone (steel), rates are not competitive, or service is not what it ought to be. What we could be seeing is a vicious circle where poor local service drives costs up, the market manager has to raise rates to cover increased costs, shippers go elsewhere and now the same local cost has to be spread across fewer cars. Lather, rinse, repeat.

Happy Fourth of July.

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