THE RAILROAD WEEK IN REVIEW

January 17, 2014

"We continue to focus on strategic investments that support long term profitable growth and productivity initiatives that improve returns on the business." - CFO Fredrik Elaisson, CSX

Genesee & Wyoming December carloads increased 12 percent year-over-year on a pro forma basis, as if RA and GWR had been combined a year ago. Total revenue units were 136,719, including 378 intermodal boxes. Among the top seven commodity groups by volume accounting for 80 percent of all traffic, only coal was up more than two percent. Metals, both forest products STCCs, aggregates, chems including petrol, and ag products were all flat to down. Year-to-date carloads gained five percent and December units were up three percent from the previous month.

Class I revenue units for December weren't all that much better. The AAR reports "mixed" December 2013 rail traffic, with U.S. railroads originating 1,078,903 revenue units, down one percent year-over-year, including an eight percent intermodal gain. Twelve of the 20 commodity groups the AAR tracks posted decreases from December 2012.

AAR's John Gray says, "The year 2013 ended the way it began, with strong intermodal, weak coal, and mixed performance for other commodities, resulting in a year for rail traffic that could have been much better but also could have been much worse. A variety of indicators seem to be saying that the economy is slowly strengthening; a trend we expect to continue in 2014."

The non-Class I community continues to lag in the carload sector as well. Ex-auto and intermodal, only aggregates, lumber and panel, chems ex-petroleum products and crude, and "other" showed any upside for the entire 2013 calendar year. Everything else is in the doldrums.

Such is clearly not the case on the west end of CN. You will recall from WIR Jan 3 that I was set to embark on a Vancouver-Toronto train trip aboard VIA's Canadian, the only long-haul 1950s Budd-built train still extant. Anywhere. We pull at precisely 2030 last Friday and are into Kamloops on time at 0630. Here we begin our climb into the Rockies and across Yellowhead Pass, one of the lowest points on the Continental Divide, and down into Jasper, just under two hours late.

The traffic density really picks up across the prairies between Jasper and Winnipeg. There are passing sidings every ten miles or so and in nearly every case we were either in one or passing/meeting somebody in one over that entire 1000-mile stretch of railroad. Though we saw a goodly number of stack trains and unit trains of coal and crude oil, merchandise carloads of fertilizer, drilling pipe, chemicals, grains and boxcars of who knows what predominated.

And though I wrote two weeks ago that Old Man Winter might have caught up with CN, the way we got across the railroad tells me their "WinterReady Plan" was working a lot better than I had predicted. Though we are five hours late out of Sioux Lookout (1000 miles west of Toronto), CN puts us into Toronto just 45 minutes off the advertised, and barely after we'd digested yet another sumptuous breakfast, courtesy of the dining car staff.

The VIA crew was superb. The staff for our 14-car train (baggage combine, two coaches, two dome/lounges, full diner, seven sleepers and a Park-series dome/observation lounge bringing up the markers) could not have been more pleasant and professional. They turned out three meals a day for three days plus breakfast on the fourth, put up our made beds in the morning and pulled them down at night, and kept the libations flowing in the lounges (the Okanagan red wine is silky smooth with a nice mouth-feel). And above all, they all seem to be *nice* people.

As a result of all of the above, our gang of 63 "moonlighters," as we called ourselves, being active or retired railroad executives, writers, and photographers, saw a lot of excellent railroading, enjoyed some of the best hospitality we've seen in our considerable travels, and enjoyed three-plus days of camaraderie. Thank you, VIA, for the superb service; thank you CN for getting us over the road in a timely fashion notwithstanding the carload volumes out there.

CSX didn't exactly set the world afire with its Q4 results. Net earnings came down five percent to $426 million vs. $449 million last year; earnings per share slipped four percent to 42 cents from 44 cents thanks to a slight reduction in share count. Total revenue increased five percent to $3.0 billion from $2.9 billion, though ops expense increased seven percent to $2.2 billion. Ops income was $813 million, essentially flat year-over-year. The operating ratio gained 134 basis points to a ho-hum 73.2.

Total revenue units increased six percent: merch carloads including crude oil and automotive were up seven percent, coal down five percent, intermodal up 11 percent. Merch carload and intermodal revenues both increased ten percent while coal was off nine percent. System RPU slipped a point with merch the only positive, up three percentage points. All-in, same-store prices gained less than two percent, same as a year ago.

Merchandise vol leaders were ag products, up 17 percent on feed grains and ethanol; chems gained 18 percent on crude oil and frac sand; large-scale remediation projects propelled waste vols up 11 percent. The metals group gained five percent on more scrap metal in and semi-finished steel out. STCC 24 building products and pulp board pushed forest products up seven percent. Ferts and STCC 20 food vols came down seven percent and four percent respectively.

The 1Q2014 outlook (slide 11 if you're singing along) is "favorable." The strong fall 2013 ag harvest carries over, energy-related chems see no signs of abating; modest gains in auto and housing will help plastics, aggregates, minerals and wood shipments. Ferts and processed foods will continue to drift. And to put things in perspective, Clarence Gooden said on the call CSX did 46,000 loads of crude oil in all of 2013. That's out of 6.5 million total loads, 0.07 percent.

As I read through the Q&A transcript, I'm amazed at how many questions are asked about coal, crude and intermodal and how few there are on carload. The merch sector (auto and crude included) represents 63 percent of revenue ton-miles and 62 percent of revenues. By comparison coal is 26 percent of RTMs and 23 percent of revs while intermodal is 11 percent of RTMs and 15 percent of revenues. The merch sector RPU is $2,563, up three percent, to coal's $2,349, down four percent, and intermodal's $656 per box, down a point. (Apples-to-apples: railroads average 1.7 boxes per platform or car-equivalent; call it $1115 per carload.)

The merch sector ex-automotive represents more than half of all CSX freight sales revenue (51 percent if you want to get picky) and 36 percent of all revenue units including coal, auto and intermodal. You go out on the railroad, you will see more mixed-carload freights than intermodal trains or unit coal jobs. So why is there so little analyst attention given to a third of the vols, more than half the revs and nearly two-thirds of RTMs? You tell me.

BNSF reports as an element of the Berkshire Hathaway quarterly in a few weeks (see below). However we can gain a sense of their fourth quarter accomplishments by parsing the Week 52 quarterly carload report and breaking it into the usual groups. Industrial Products car-counts (virtually everything but coal, ag, intermodal and auto) increased six percent, some 29,000 units, 25,000 of which were in petroleum products where crude oil is the dominant force.

Ag, including grain-mill products but excluding STCC 20 processed foods, slipped eight percent as the STCC 01 grains dropped ten percent. Coal has turned the corner, up three percent and Consumer Products, essentially automotive plus intermodal, gained nine percent. Total revenue units increased six percent.

Quarterly results begin again next week. NS is on tap for Wednesday and UP reports Thursday. CP and CN report the following Wednesday and Thursday, respectively. GWR generally reports shortly after the first of the second month of the quarter, Berkshire reports on a mid-month Friday and FEC towards the end of the month. P&W will bring up the markers in March.