THE RAILROAD WEEK IN REVIEW

April 10, 2015

"In most global rail networks, irregular unit trains are seen as capacity destroyers." — Rodney Case, Oliver Wyman, Inc.

Total AAR combined US and Canadian revenue units year-to-date through March 28 increased 1.8 percent year over year. Shortline revenue units, as reported in the GE Transportation RailConnect Index, decreased 1.6 percent over the same period. If you back out intermodal, auto, and coal for both, you get to the merchandise carload base so critical to the Class II and III railroad and switch carrier community. Here, the Class Is did better than I expected, up 3.8 percent to the shortlines' 1.2 percent.

At first I thought the difference might be crude oil — big on the Class Is, yet touching only a handful of short lines on a line-haul division of revenue basis. Perhaps not. The AAR petroleum and petroleum products commodity group is off 1.3 percent in March compared with up 3.6 percent in Feb and twice that in Jan. Clearly the bloom is off the crude oil rose. On the other hand, the STB's Quarterly Commodity Statistics tables say the STCC 29 portion of the group remains pretty steady period to period. Thus, one concludes it's crude oil driving the declines.

Short Lines				
Commodity	**YTD 2015**	**YTD 2014**	**Delta**	**Pct Tot**
Total	1,627,720	1,653,709	(1.57%)	100.00%
intermodal	219,986	236,033	(6.80%)	13.51%
All Carloads	1,407,734	1,417,676	(0.70%)	86.49%
Auto	41,250	36,631	12.61%	2.53%
Net	1,366,484	1,381,045	(1.05%)	83.95%
Coal	149,991	179,134	(16.27%)	9.21%
Carload	1,216,493	1,201,911	1.21%	74.74%
AAR Class Is				
Commodity	**YTD 2015**	**YTD 2014**	**Delta**	**Pct Tot**
Total Units	8,012,837	7,874,269	1.76%	100.00%
Intermodal	3,717,424	3,645,809	1.96%	46.39%
All Carloads	4,295,413	4,228,460	1.58%	53.61%
Coal	1,388,367	1,423,659	(2.48%)	17.33%
Net	2,907,046	2,804,801	3.65%	36.28%
Auto	255,715	251,037	1.86%	3.19%
Net	2,651,331	2,553,764	3.82%	33.09%
Source: GE Transportation RailConnect Index, AAR Rail Time Ind, April 2015				

The top merchandise commodities for the RailConnect group of 432 reporting roads are chemicals (including fertilizer but excluding STCC 29 petroleum products), aggregates, grain, metals, forest products (lumber and paper), and food ex-grain (largely STCC packaged goods and grain mill products), which combined comprise nearly two-thirds of all non-Class I revenue units. Coal adds another nine percent and overhead traffic a minuscule two percent.

Transportation, it is said, is a “derived demand” service, i.e., you don’t buy any unless you want something moved. Short lines are almost a second-derivative service, in that if it isn't moving on a Class I it’s not likely to be moving on a short line, either. That’s why the economic slowdown hits the non-Class Is doubly hard.

US rail volumes peaked in 2006, topping 340,000 units a week, according to the AAR’s Jan 11, 2011 Rail Time Indicators. They hit bottom in 2009 at 250,000 a week, and topped out at 300,000 last summer, before slipping back to the 280,000 level in March. Twelve of the 20 AAR commodity categories posted year-over-year declines, the most since Jan 2014. Among the 14 RailConnect commodities, seven posted year-to-date declines *vs.* last year.

Which brings me to the subject of railroad efficiency levels. The rails handled 1,741 billion RTMs in 2013, down two percent from the 1,772 billion RTMs logged in 2006. US annual revenue units over the same period dropped to 28.8 million from 32.1 million, down ten percent. The good news is RTMs didn’t fall as far as revenue units, meaning more ton-miles per unit. But it also says there were 3.3 million fewer revenue units cluttering up roughly the same 95,000 route-miles of railroad. Train-miles decreased to 504 million from 563 million, ten percent.

So why are we having so much trouble getting trains between end points reliably and on-plan? Average units per train is stuck at 69, even counting an intermodal multi-platform unit as a single “car.” Length of haul is still in the low 900s; freight car miles dropped ten percent 2006-2013. Revenue ton-miles per employee hasn’t budged and RTMs per owned track-mile are essentially unchanged; locos in service in 2013 increased by 1,300 to 25,033, up five percent.

The only good news out there, and this is arguable, is that operating ratios improved 2006-2013. But the OR has only gone down because revenues have gone up faster than ops expense, according to an Oliver Wyman presentation by Rodney Case at last November’s RailTrends. Moreover, says Case, congestion has once again reared its ugly head with velocities down and yard dwells up since 2011. What he calls “irregular non-coal unit trains” are a major contributor to the slower railroad, creeping up to 8.7 percent of train miles from 7.0 percent in 2009.

Closer to home, first quarter 2015 revenue unit vols are hardly impressive. Total revenue units are up a mere point over last year, slipping deeper into the red over the past three weeks. Coal is off 8 percent for the present quarter, clearly a large contributor to the total volume decrease. Petroleum products aren’t helping either — up 5 percent for the quarter but dropping sequentially for the last three weeks.

A quick scan of dwell time and average train speeds is not encouraging, either. Yard dwells have increased slightly for NS and CSX, remained the same at UP, and come down a bit for BNSF. System train speeds are unchanged for everybody. (Canadians are not scored as CP has retired from the performance metrics competition.)

Pennsylvania's Reading Blue Mountain and Northern Railroad has just been awarded its third Regional Railroad of the Year trophy from *Railway Age*, having been so named in 2002 and 2011. RA Editor Bill Vantuono cites the railroad's "adaptability and flexibility" as it anticipates and adjusts to new markets and traffic flows. The Reading & Northern, as it is unofficially called, serves more than four dozen carload customers in nine counties on its 300-plus mile network of rails originally laid down by the Pennsy, CNJ, Reading and Lehigh Valley Railroads.

R&N handled 24,365 revenue carloads last year, up three percent, notwithstanding a sharp 21 percent decline in its core (one-fifth of volume) anthracite coal unit train business. Happily, the other 80 percent of the line's traffic base includes a diverse commodity group ranging from forest products and chemicals to metals and minerals; their vols increased by 7 percent last year.

The so-called "domestic coal business" serving steel, sugar, and charcoal customers was also up 7 percent and is a good example of how R&N develops new markets for old products. Dan Gilchrist, EVP Marketing and Sales, says dried coal has played a key role in building the road's steel-related business. The product is made by running coal through a dryer that takes the moisture content down to two percent from as much as 15 percent and is used as the carbon ingredient for steel-making. To keep the product dry, it moves in covered hoppers.

R&N credits its success not only to a growing number of customers and a widening commodity base, but also to its willingness to invest in its own asset base to support the growth. R&N three years ago committed to a dependable two-hour service window for each customer and since then has seen its merchandise carload business jump 20 percent. The railroad buys its own freight cars (248 aluminum rapid-discharge cars for coal, e.g.) for lane-specific moves and keeps secondary tracks in good repair for the car-storage franchise, accommodating several thousand car spots.

What strikes one immediately upon entering the company's Port Clinton ops base is the state of good repair on everything, from the purpose-built, classic railroad style HQ building to the passenger fleet (more than 70,000 passengers on its Lehigh Gorge Scenic Railway last season) and well-maintained fleet of four- and six-axle power. Daren Geschwindt, AVP for Merchandise Traffic, puts it this way: "It's like Kevin Costner in Field of Dreams. If you build it, they will come." Congratulations, all.