RAILROAD WEEK IN REVIEW

June 17, 2016

"There is no evidence that the proposed [FRA] Train Crew Staffing Rule will address safety challenges in a way that is meaningful and operationally sustainable for our small businesses."
— Linda Bauer Darr, President, ASLRRA

Quarterly Freight Commodity Statistics (QCS) are in. The STB issues this report about six weeks after the end of each quarter to show car loadings and total revenues by commodity code for each commodity transported by a particular railroad during the reporting period. It is based on information contained in waybills used by railroads in the ordinary course of business. The report is not verified by the STB.

The complete Excel spreadsheets are available on the STB website under the industry data tab, but there's a better way. My friends at USRail Desktop have set up a chart wizard that gives you total carloads by 5-digit STCC going back five years. I've arbitrarily selected a number of 5-digit STCCs that are the core business of every non-Class I carrier to give you an idea of the long-term trends starting with the 2012 first quarter through the 2016 first quarter. I'm looking at revenue carloads for all seven North American Class Is.

— Corn, 01132. BNSF and UP are the big hitters, CSX and NS are tied for the mid-tier, with KCS and the Canadians bringing up the markers. All are flat to down, though KCS shows a modest uptick.

— Wheat, 01137. BNSF is the heavy hitter here, down in units, with UP a distant second in number of carloads, also down a bit. It's a middling story for the other five names as well.

— Beans, 01144. BNSF once again is the volume leader, though the quarter-to-quarter chart presents a huge saw-tooth pattern — up for two quarters, down for two quarters, flat for a quarter, repeats. UP is the Number Two bean carrier, also a saw-tooth, but less pronounced. The other carriers are up and down as well, though essentially unchanged from where they were five years ago.

— Construction aggregates, 14219. BNSF and UP gained vols at about the same rate of change; CSX and NS were spiky quarter to quarter, finishing little changed. KCS and the Canadian rails handle the fewest loads in this STCC and show no growth.

— Frac sand, 14413. BNSF and UP take the honors for most loads; though UP had a big peak in 4Q2014, that melted quickly and UP wound up about even with BNSF, essentially unchanged over the period. CN has seen a modest increase, NS a slight decrease, and the rest unchanged.

— Dimensional lumber, 24211. UP carried the most and is nicely up over the period, though slowing in the last four quarters. CN has scored the fastest rate of upward change, followed by NS. BNSF and CSX are up slightly, while CP and KCS were essentially unchanged.

— Pulp board, etc, 26311. CSX and NS are tied for top vols; CSX is flat over five years and NS is up a bit. In the next tier we have KCS and UP, both flat to down a small amount. Then come BNSF and NS, unchanged, and CP the lowest number of loads, unchanged.

— Steel in sheets or strips, 33123. NS is by far the number one carrier by volume, though down 10,000 units over the five years. CSX, BNSF and UP third, each down 10,000 cars for the period. The remaining three names are all trending down, though the volume changes are smaller.

For the non-Class I community, the name of the game here is to use the QCS to see where your commodities rank with your connecting Class Is, then act accordingly win back share, hold what you have, or harvest. As you can see, we seem to be in a going-out-of-business mode. All carloads are not created equal and not all Class Is look at all commodity groups the same way. The QCS sheets will help you decide what game your connecting Class I is playing.

Non-Class I railroad commodity trends run a parallel theme. Here I'm using the GE Transport RailConnect Index for Week 13 in 2012 and 2016. The commodity groups break more broadly than the QCS— corn, wheat, and beans are all "grains;" "metals" includes everything from aluminum to zinc, e.g. — but you can see where we're heading.

Commodity YTD	2012/wk13	2016/wk13	Change
Grain	187,123	193,697	4%
Stone, Clay, Agg	175,619	174,240	-1%
Lumber & FP	64,208	85,354	33%
Paper Prods	106,260	96,140	-10%
Metals & Prods	142,425	119,096	-16%
Total Commodity	675,635	668,527	-1%
All carloads	1,611,352	1,682,289	4%
Pct commodity	42%	40%	

These commodities represented roughly two out of every five non-Class I carloads and all-told are off one percent over the six-year period, whereas total carloads — auto, coal, and intermodal included — are up four points. Anecdotal evidence suggests a preponderance of lumber and panel products are moving short line to short line, with Class Is as overhead carriers, with little say in creating the moves or even supplying the equipment.

The feeder lines' competitive advantage in covering the first-mile/last-mile customers really shines in catering to local customers' supply chain requirements. Examples:

— A local lumber dealer supplying one of the biggest pre-fab housing makers in the area has gotten creative in sourcing lumber where the short line's connecting Class I market penetration is the strongest.

— A short line in the middle of one of the oldest and largest hardwood lumber forests in the east has introduced the serving Class I to that commodity's trade association. Neither had a clue the other existed, but now the conversation can begin.

— A short line's deft handling of a steel fabricator's rail service needs helped that customer win a contract worth hundreds of cars of inbound product.

— Just yesterday I joined a short line marketing rep on a call with a major lumber customer on his line. The customer likes the convenience of a center-beam or two at a time, but has trouble justifying irregular transit times to his customers awaiting product. Moreover, he says, rates vary between the same OD pairs, depending on the routing the Class I selects. If he could get these variables fixed, he'd be an even bigger customer.

Here's the conundrum. The standard refrain from all the Class I earnings calls — and the current crop of analyst conferences — is (a) we want to control what we can to enhance customer value, and (b), coal ain't never coming back and the merchandise carload, trucks-off-the-highways franchise will play a major role in recovery.

Well, the trends cited above show the non-Class Is are better than the Class Is at beating the bushes for new carload business, and the Class Is are better than the non-Class Is at driving that business away. It doesn't have to be that way.

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