RAILROAD WEEK IN REVIEW

August 25, 2017

"The updated definition of Train Velocity includes intermediate dwell, reflecting the true speed of a train from origin to destination, and will help identify all opportunities to move trains faster and more reliably from origin to destination." — CSX Press Release, August 22, 2017

Reports of CSX doom and gloom may be exaggerated. Scott Group at Wolfe Research reports that truckers on the East Coast and in the south say capacity has returned to normal and aren't reporting any problems with CSX service. At Cowen, Jason Seidl writes that the market share shift to NS from CSX slowing. Still, the YTD carload gains for CSX lag those at NS, though the NS coal contract win undoubtedly helps. In other CSX commodities, grain is off big-time; STCC 28 chems are holding their own; coal is better than expected, lumber is flat -- at least not down; frac sand and aggregates up nicely. Auto is down, but then so is auto for everybody else.

Economist Stephanie Pomboy provides a clue: "Housing and health care account for most of the consumer spending gains. In the second quarter, these two categories were responsible for 58% of the increase in consumer spending and 35% of the growth in nominal gross domestic product. Had it not been for the surge in the cost of these basic bare necessities of life, the 2.8% gain in real consumption would have been 1.8%." And that's just part of the reason auto sales are down. The rising sub-prime auto loan default rate doesn't help.

CSX has changed the way it measures velocity, dwell, and cars on line. From the press release, ***velocity*** is based on the train's "end-to-end time, including intermediate dwell time for crew changes, freight car pick-up or set-off, or other work events at an intermediate yard." The AAR defines "train speed" as average speed of line-haul movement between terminals, "calculated by dividing train-miles by total hours operated, excluding yard and local trains, passenger trains, maintenance of way trains, and terminal time."

Unfortunately, neither defines a "train." Is it a symbol freight from Selkirk to Rocky Mount, SERM, with velocity calculated from the time elapsed between origin and destination, or is it the over-the- road time for each segment, including dwell at each intermediate class yard? I've asked CSX to provide more clarity, but hadn't heard back response by my deadline. Stay tuned.

Terminal dwell includes "all car dwell time encountered on an end-to-end trip, even intermediate car dwell for terminal work events when a car arrives and departs on the same train." From this it would appear that if the SERM swapped blocks in Phila or Richmond, that dwell would be included in the velocity score as well as in the dwell reports for each yard that the SERM did not run through without stopping.

The AAR says terminal dwell "is the average time a car resides at the specified terminal location expressed in hours. The measurement begins with a customer release, received interchange, or train arrival event and ends with a customer placement (actual or constructive), delivered or offered in interchange, or train departure event. Cars that move through a terminal on a run-through train are excluded."

Cars On Line measures "the number of *active* [emphasis mine] freight rail cars on rail lines operated by CSX." It does not count inactive freight rail cars, such as the that are out of service for repairs, are in storage, or have been sold but not moved oft the property. This is an improvement on the AAR definition, "the average of the daily on-line inventory of freight cars," because it only counts those cars carrying or ready to carry revenue freight.

In sum, more closely defining these terms ("train" excepted, above) provides a better picture of how well individual cars under load perform between OD pairs, how well active cars are turning between loads, and where trains are being delayed to the detriment of paying customers.

Lumber carloads nation-wide are up only 40 basis points year-to-date, but it could be worse and may just be improving. This note from Wells Fargo re housing triggered further inquiry. "Given the strong backlog levels and long cycle times, homebuilding income growth should remain solid through 2018." Argus Research is always a good sanity-checker as they have no buy-sell relationships.

Toll Brothers, for example, says they're "upbeat about prospects for the housing market... the supply of new and existing homes for sale continues to lag behind growth in population and households... still-low interest rates, a limited supply of homes and improving credit profiles are bringing prospective buyers off the fence."

Moreover, the AAR Says (*Rail Time Indicators*, Aug 4): "Housing-starts are up 3.9% over the first six months of 2016, up 11.1% over the first six months of 2015, and the most since 2007 That housing starts are trending higher shouldn't be a surprise. Mortgage rates are low, the job market is better, consumer confidence is high, and household balance sheets are in the best shape they've been in years. If anything, the puzzle is why housing starts aren't higher than they are.

The AAR continues, "Favorable supply/demand conditions at the high end of the housing market as a result of limited access to capital by small and mid-sized privately owned builders, several years of pent-up demand, and a shortage of approved home sites in high-employment markets." Now if only we can get competitive prices and transit times in more lanes…

Canadian Pacific is ramping up its Dedicated Train Program (DTP) for the the 2017-18 crop year, even now handling more than 75 percent of the grain moving on CP. Customers benefit from better control of car supply to manage their supply chain. The power-on component further improves cycle times and efficiency by ensuring locomotive power is available as soon as loaded grain cars are ready to be moved.

The goal is having the capacity to load, move, and unload 8,500-foot long unit trains with a minimum of 134 cars (20% more than the more usual 112-car trains) of grain destined for export. Says CP, “Through infrastructure investment and collaboration with grain companies and port operators, this enhanced train model allows railways, elevators, and ports to increase throughput and better utilize resources.”

To this end, CP has invested in longer sidings and track upgrades to support these larger trains. And, as the industry moves toward shorter, higher-capacity cars, CP will be able to fit more cars and more grain on each 8,500-foot train. The end result is more grain transported to market more efficiently than ever before.

Customers not in the unit train programs may still use the Open Distribution model, allowing them to order cars for up to four weeks out. As orders are filled, new orders can be placed. See also the newest iteration of the CP grain website, www/cpr.ca/grain.

Not to be outdone, CN looks back at a record 21.8 million metric tonnes of Western Canadian moved during the 2016-17 crop year. Doug Mac Donald, VP for bulk products, says they achieved this record by doing a better job fitting railroad capabilities with customer supply-chain objectives, “resulting in improvements in the use of equipment and better than ever efficiencies in size of trains.”

All told, CN in the 2016-17 crop year moved 7% more tonnage than the prior three-year-average; beat the one-year record set in 2014-15 by 2%; hit six new volume records between the peak months of September and March (when grain prices are highest); built out unit trains to 200 cars, using distributed power and air repeater cars to extend train length and improve train braking during extreme weather winter months.

Customers are contributing. Grain companies have built nine new country elevators, with another seven opening in the next year and a half. Moreover, this season customers secured approximately 70 per cent of CN’s car supply in advance, under commercial agreements subject to car commitment guarantees. But work remans to be done, says MacDonald. More rail capacity is needed in Vancouver to meet forecasted demand driven by new and ongoing investment in export grain terminals.

The message to feeder rails for both CP and CN is quite clear: If you want to be part of the grain unit train network, you’ve got to have the space and turn the cars. I know of at least one Class I railroad that actually scores short lines on interchange/on to place; place to release; release to interchange/off. Interchange/on is when cars are made available to you and interchange/off is when you make cars available to the Class I.