# RAILROAD WEEK IN REVIEW

## June 29, 2018

*Federal regulations require truckers to track four different times. The first limits driver-hours, the second limits work days, the third limits driving hours per day, the fourth mandates break frequencies. — Bloomberg, June 26*

**Share prices in recovery** can be revealing. After Monday's sell off, the ETFs for materials, consumer discretionary, oil and gas exploration & production, home building, and energy were all up by Tuesday noon. Watching these trends can give one a clue about the general direction of specific industries that comprise the railroad commodities list. Charting the ETFs is a start.

Following sector ETFs provides a measure of where the names within the ETFs are going, and that direction is a reflection of stock trader trends, sentiment, and where commodities are going. As it happens, the WSJ reports that commodity hedge funds are closing at an increasing rate due in part to a market that is driven more by algorithms than by fundamental information commodity specialists. The Journal continues,

> While computerized trading long ago invaded markets such as stocks, bonds and currencies, commodities have been slow to follow. Automated trading in energy-related contracts for the first time accounted for more than half of futures volume from late 2014 to late 2016, compared with more than 80% in foreign exchange futures and more than 70% in equities, according to data analysis from the Commodity Futures Trading Commission.

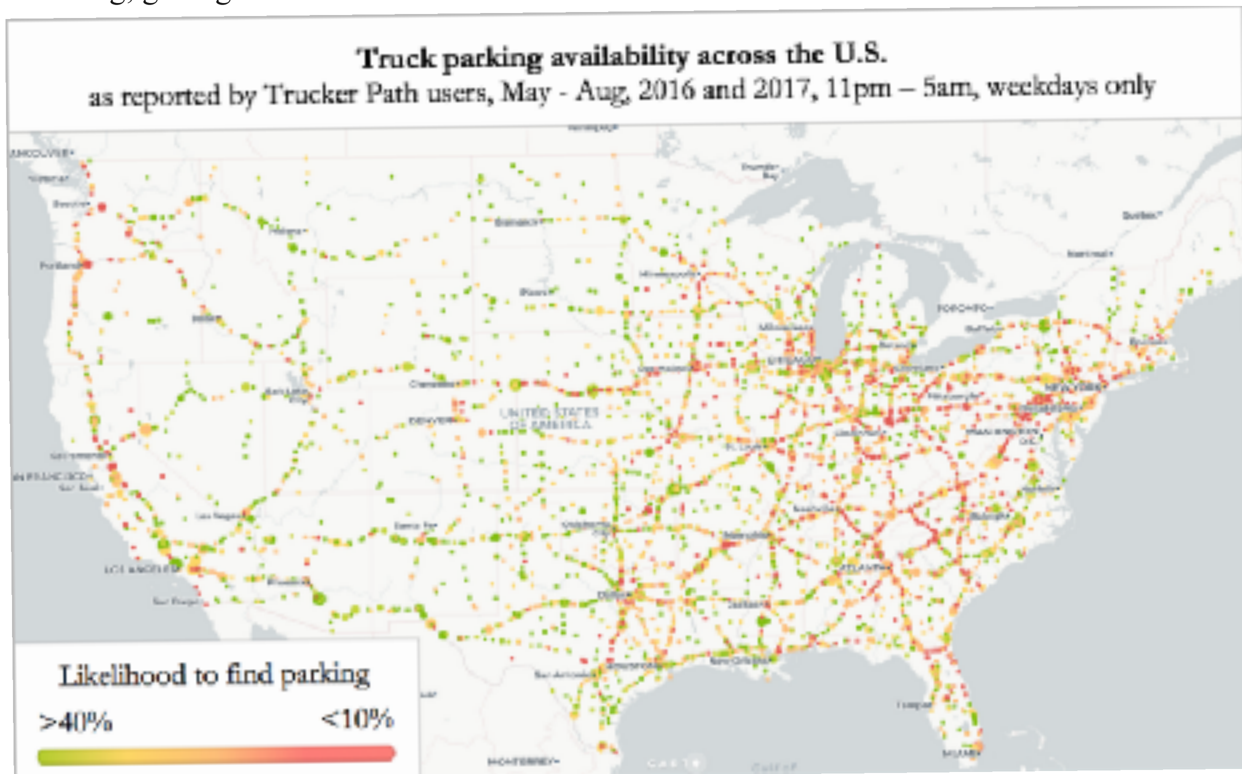
Automated trading affects share price movements for the companies in any ETF. So if the algorithm running the energy market detects movement, it changes the market share prices of the individual names accordingly, and the price of the ETF rises or falls [*and the Duke brothers collect the commissions — rhb*]. That's because the ETFs are trend followers and have little to do with individual companies' fundamentals. And because The Trend is Your Friend, you can get a sense of how sectors are performing or expected to perform from movements in their ETFs.

For example, if the homebuilding sector is up, what can your lumber customers expect? The O&G exploration ETF has been flat but is turning up. Put that against what your frac sand customers are saying. And so on. Stay tuned.

**Where Have America's Truck Drivers Gone?** asks Bloomberg June 26. The argument is that increasing volumes of goods ordered on-line creates demand for more trucks than are available to carry them, and the new ETF and hours-of service rules aren't helping — starting April 1 all truckers have had to use electronic monitors rather than paper records to track their driving clocks.

> Federal regulations require truckers to track four different timers. The first limits a driver to working 70 hours in an eight-day period. The second limits the workday to 14 consecutive hours, regardless of what the driver is doing; this clock keeps going even if the driver takes a nap. The third caps driving at 11 hours within that 14. The fourth requires a 30-minute break at least every eight hours.

Now the question becomes one of finding a place to park the rig while the driver takes the mandatory rest. Bloomberg again: as more big rigs hit the road, the need for rest stops goes up. And it varies depending on the territory. Finding a parking place on the Denver approaches is one thing; getting into Atlanta or DC is another matter.




Consider the costs of having to take rest well short of the destination. It used to be that a driver making 40 cents a mile might drive 750 miles in 15 hours, averaging 50 miles an hour and making $300. His paperwork would claim 11 hours at 68 mph. Not any more. The truck-mounted Electronic Tracking Device (ELD) will not allow 15 hours, meaning the 50 mph driver makes only $220. To keep even, his pay would have to rise to 55 cents a mile. And so you need more drivers to deliver the same tonnage.

The ATA figures that the industry is now short some 50,000 drivers and it'll only get worse. The average truck driver age is 49 and trucking company pay averages $53,000, with private fleet drivers making half again that much. ELD and rest requirements will add to operating costs, even as the availability of trucks to receive goods shrinks. I've heard tales of it taking as long from order to spot as it does for a boxcar to go from Atlanta to Chicago. Which seems to me the

opportunity of a lifetime for the railroads' single-car merchandise service to capture significant market share and save beneficial owners buckets of money in the bargain.

Time is money, and the trend is toward shorter transit times. Volvo is starting to advertise self-driving SUVs, leaving the driver free to "eat, sleep, work, watch a movie, relax or do whatever while their autonomous car drives on the highway." Note the key word is *highway*. The human takes control at the exit ramp. Talk about a disruptive technology for trucks…

**The New York, Susquehanna & Western** has restored service on its 45-mile line between Utica and Birmingham after 12 years of being idle. Service was originally suspended along the line in 2006 following severe damage by floodwaters in 20 locations within Chenango County. Two years later NYSW filed papers to abandon the line.

However, the Chenango County Industrial Development Agency (CCIDA) said not so fast, and by 2010 had completed initial plans to restore the line. The very next year NY DOT awarded $772,000 to CCIDA towards repairing the line. Two years later, the U.S. Economic Development Administration came up with a $4.7 million grant, helped in no small way by the CCIDA's initial efforts, plus contributions from other local agencies as well as the NYSW itself.

Restoration work began in 2015 and has just been completed. The project included washout repair, installation of new culverts and other drainage installations, and the placement of hundreds of new ties. NYSW's own labor force performed repairs to the electronic and mechanical equipment at grade crossings. The first train ran last week. Kudos to all.

**Correction.** In last week's table of railroad financials, the signage of the debt changes was reversed. Here's what it ought to be:

| **3. Net Debt Change** | | | | | | | |
|---|---|---|---|---|---|---|---|
| 4Q2017 | $ 2,141 | $11,670 | $ 8,232 | $11,807 | $ 9,165 | $16,540 | $ 2,195 |
| YTD 2018 | $ 2,219 | $10,758 | $ 7,821 | $11,408 | $ 9,046 | $15,669 | $ 2,170 |
| Change | 3.7% | -7.8% | -5.0% | -3.4% | -1.3% | -5.3% | -1.2% |

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