RAILROAD WEEK IN REVIEW
June 19, 2020

"Trade that must travel only a few dozen miles is less likely to be disrupted than trade that must cross an ocean. In any system where global maritime transport becomes constrained, land based transport becomes more viable." — Peter Zeihan, Disunited Nations, page 273.

"Retail sales of building materials and gardening supplies are truly is a 'good news' story, with sales jumping ten percent, a record increase and to a record high level. Sales from January to May are up at an impressive 22.7 percent annual rate." — Rosenburg Research, "Deep Dives and Market Movers," June 16

The Canadian Pacific book of business seems to be very favorable for short lines and regional railroad connections. CP groups its revenue commodity mix into Bulk, 40 percent; Merchandise, 39 percent percent; and Intermodal, 21 percent. Commodity groups where feeder railroads have little or no interest are coal, nine percent; Automotive five percent; and Intermodal, 21 percent. Thus 65 percent of CP's book is in commodities in which the non-Class Is have a play. (All percents apply to full-year 2019 revenues.)

CP maintains that their Railway Performance Monitoring (RPM) system "provides deeper drill-down capabilities to report on — and maximize — operations across the entire network." Trip plan compliance measurement is a key part of the process. When the car is waybilled and released to the railroad at origin, CP creates a trip plan showing the route, interchange points, and final customer placement (actual or constructive). Trip Plan Compliance measures how well the car moves according to the trip plan, catches variations to plan, and can remedy trouble spots to achieve the goal of 100 percent TPC.

The stakes are high. Running the railroad without the unplanned events that eat into TPC not only costs less in terms of car hire, crew costs, diesel fuel, and all the usual variable expense lines, but also makes the move more valuable to customers, which in turn improves margins. Recall what Tom Peters wrote in his *Thriving on Chaos* some 30 years ago: that delivered quality as measured by the customer is what they pay for. You can't command a premium price for a substandard product.

The "Precision Scheduled Railroad" ties it altogether. And it takes no great leap of faith or special investments for non-Class I railroads to participate. Here's how: the moment a car is released by the customer, create a waybill and get it to to the connecting Class I. That starts the trip plan.

Pull the car ASAP and get it to the interchange and get it on the Class I's account. You can even get a trip plan ahead of time by giving your Class I the planned release time. It could be the date/time of interchange can affect travel time. It's all about creating quality the customer can measure and for which you can demand a premium price.

In this instance I'm using CP to set an example of how RPM and TPC create quality as measured by the customer. A few years ago I used the idea with UP for a steel customer who was experiencing variances in transit time from origin plant to the destination user. We discovered different release days meant different dwell times at intermediate yards and possibly hitting the class yard serving the destination on days the serving local didn't run.

The customer started releasing cars by destination on days that had the best transit time. Not only did UP get less dead time in the move, but also the customer lowered inventory costs with just-in-time releases and placements. Take that story to your customer, have in tow a CP rep who can make rates on the spot, and walk out the door with an order. Easy-peasy.

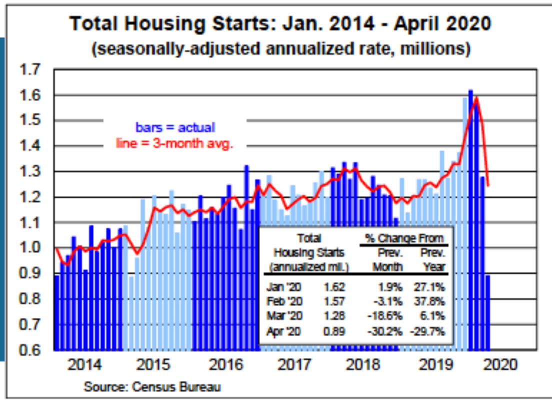
Trains contributor Bill Stephens writes in his July, 2020, commentary, "One of the biggest problems facing railroads is one that you can't see. The industry doesn't provide a simple way for shippers to track their freight when their cars move across more than one railroad. If railroads want to grow merchandise traffic, they'll have to revolutionize how they manage their cars, share the data and make it available."

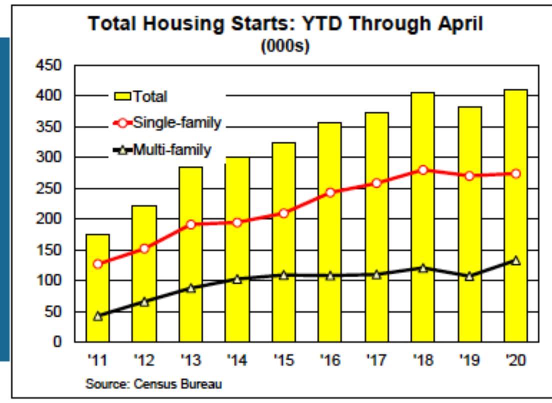
Canadian National president JJ Ruest laments much the same in his podcast with *Railway Age* Editor Bill Vantuono. Ruest says you can get out a roadmap and see how a truck will move from A to B. There is no such roadmap to show how a freight car will move when the origin is on one railroad and the destination is on another. Worse, there's no one place to go to see where the car is between OD pairs. You can see it on the origin road website, but it disappears when it goes to the destination road. The only way to see it is by going to the destination road website.

What I would like to see is a tool that shows you a carload of potatoes originating on Watco's Eastern Idaho Railroad, moving UP to interchange with Norfolk Southern, with destination on an eastern Pennsylvania short line. Then we would begin to approach JJ's roadmap.

Stevenson again: "Every truck shipment is the railroad equivalent of a single-line move. The big truckers have GPS-based telematics that provide precise real-time location for every trailer. So it's easier for customers to follow shipments from door-to-door." Want proof? A common shipper complaint at conferences such as those held by NEARS is that "the railroads are too difficult to do business with." Yet another reason why railroads continue to lose share in the inter-city transportation markets.

Rosenberg says sales of building materials and garden supplies are up impressively. However, that may not translate into increased railroad carloads. The AAR Rail Time Indicators for June 5 shows April housing starts are down to an absolute level not seen since early 2015 and sequentially down 31 percent from March this year. See right chart, below.





Moreover, housing starts YTD through April, 2020 are up a bit vs. 2019 and about even with the same period in 2018 per the right hand chart above. The National Association of Realtors says existing home sales in April, 2020, were down 17 percent year-over-year, but rock-bottom mortgage rates and "will be a key factor driving housing demand as states reopen."

All of which suggests to me the increased building and gardening supply sales that Rosenberg touts are largely to support stay at home "feather your nest" projects rather than a surge in new construction. For example, take Tractor Supply Company (TSCO). Morningstar says TSCO is "the largest consumer farm specialty retailer in the United States, with more than $8 billion in annual sales." Shares are now 20 percent above their March high.

Ned Davis Research, a purely technical service that seeks "profitable, undervalued companies with strong price momentum," put TSCO on its Buy list, citing the company's "strong technicals and fundamentals," clearly meeting the three NDR criteria for its Equity Focus Rank — Technical, Profitability, and Valuation.

The takeaway from all this is that when a financial commenter gets into a topic you know something about, try to see what he's measuring and compare that against your regular trusted sources. Here, it isn't clear where Rosenberg was getting his numbers and what those numbers included. Thus it was the AAR, NDR, and Morningstar to the rescue.

The Railroad Week in Review, a compendium of railroad industry news, analysis and comment, is sent as a PDF via e-mail 50 weeks a year. Individual subscriptions and subs for short lines with less than $12 million annual revenue are $175. Subscriptions for Class I railroads and shortline operators with more than $12 million annual revenue are $600 per year. To subscribe, click on the Week in Review tab at www.rblanchard.com. © 2020 The Blanchard Company