RAILROAD WEEK IN REVIEW

October 15, 2021

Third quarter results will be revealed over the next two weeks. To set the scene I ran some comps of the Big Four US Class Is — see table below. Carloads include coal and automotive; intermodal is containers and trailers. I've omitted the Canadians because I want to do US-only comps; I've omitted KCS due to their smaller volumes. Some significant differences emerge.

Road	3Q2021	3Q2020	Chg	YTD 2021	YTD 2020	Chg	YTD % Total
BNSF							
Carloads	1,131,797	1,055,909	7.2%	3,409,814	3,183,265	7.1%	44.7%
Intermodal	1,375,112	1,351,939	1.7%	4,220,935	3,680,051	14.7%	55.3%
Total	2,506,909	2,407,848	4.1%	7,630,749	6,863,316	11.2%	
UP							
Carloads	1,105,729	1,050,389	5.3%	3,259,054	3,090,844	5.4%	53.5%
Intermodal	908,567	980,512	-7.3%	2,828,975	2,610,861	8.4%	46.5%
Total	2,014,296	2,030,901	-0.8%	6,088,029	5,701,705	6.8%	
CSX							
Carloads	812,945	806,690	0.8%	2,478,285	2,336,685	6.1%	52.6%
Intermodal	733,817	712,678	3.0%	2,229,183	1,962,068	13.6%	47.4%
Total	1,546,762	1,519,368	1.8%	4,707,468	4,298,753	9.5%	
NS							
Carloads	732,819	696,380	5.2%	2,220,350	1,990,747	11.5%	41.6%
Intermodal	1,010,665	1,063,591	-5.0%	3,112,221	2,913,050	6.8%	58.4%
Total	1,743,484	1,759,971	-0.9%	5,332,571	4,903,797	8.7%	
Source: Class I reports							

** At BNSF intermodal dominates, reporting a whopping 15 percent gain in year-to-date revenue units vs. the first three quarters of 2020. The seven percent YTD carload increase was second after NS.

** CSX intermodal increased 13 percent YTD, second to BNSF. They lost ground in the quarter but one must recall they've had some challenges regaining their intermodal footprint after a

significant shift away from the hub-and-spoke model. The spread between carload and intermodal as percentages of the whole is the smallest of the group.

** Union Pacific posted the smallest gain in revenue units with single-digit increases in both categories. The seven-point spread between YTD intermodal and carload as a percent of the whole is only five points, which ought to be a positive for short lines who live on the carload franchise.

** Norfolk Southern third quarter intermodal lost ground — unfortunate as that sector represents the largest percentage of total volume among all four US Class Is. The YTD bounce-back suggests the poor 3Q performance was an outlier. The 17-point spread favoring intermodal vs. carload does not bode well for the carload franchise. Non-Class connections depending mainly on carload revenue would do well to watch the trends closely.

BNSF will report with Berkshire in early November; however, for the upcoming earnings calls I expect the best carload detail from UP and we'll have to kind of listen between the lines for the other two. I will be looking closely at relative gains in total revenue, RPU, and at changes in operating income. The spread between operating income and net income (not per-share) could be telling.

I've been thinking about railroad rates and how they always seem to be going up. Well, they have, and perhaps not by that much. The table on the left compares the reported average revenue per unit increases over five years and include fuel surcharges, which may increase. Read on:

	FY2016	FY2020	Chg
BNSF	$ 1,939	$ 2,086	7.6%
UP	$ 2,203	$ 2,354	6.9%
CSX	$ 1,743	$ 1,796	3.0%
NS	$ 1,362	$ 1,465	7.6%
CN	$ 2,176	$ 2,362	8.5%
CP	$ 2,400	$ 2,784	16.0%
KCS	$ 1,034	$ 1,158	12.0%
Source: Railroad Financials			

The graph on the right traces the price of West Texas crude oil over the past year. Once again, the law of supply and demand is in play. Even as utility coal is being replaced by natural gas and

“alternative” fuels, we’re seeing a similar move in transportation — the displacement of gasoline by electric vehicles, ride sharing, robo-delivery vehicles, and so forth. But the undeniable fact is that demand for oil-based transportation fuels is not going away in our lifetimes — a gallon of regular in California has hit $5 and shows no signs of stopping there.

The global efforts to curtail oil consumption in the name of climate change are actually increasing oil prices by trying to throttle supply. (For example, the WSJ reports there are now 266 active wells in the Permian vs the peak of 568 six years ago, down 53 percent.) That’s why a gallon of WTI is double what it was in January. And the Street is now talking bids of $90 and up in the very near term. Think of the impact on truckers’ fuel bills.

We keep reading about double-digit increases in trucking spot rates, made possible in part by the railroads’ inability — or even desire — to compete in many markets. But as long as the market will allow the railroads to increase rates at an “inflation adjusted” four percent a year, truckers will continue to gain share in the time-sensitive lanes and the railroads’ share of total ground transportation ton-miles will continue to shrink.

If, on the other hand, the railroads seek to leverage their inherent cost advantages, they win back share and customer loyalty. It’s worth a shot.

The supply chain problems we’ve been reading about may be easing. For example, recent reports have suggested Toyota is planning to ramp up output in Q4 because of improved auto parts availability while companies operating in Vietnam are normalizing manufacturing as that country emerges from its COVID shutdown. Rates on China-US shipping lanes have come off their highs. The ports of Los Angeles and Long Beach have agreed to run operations 24/7, a shift that should help alleviate supply chain constraints. (FDX, UPS, and WMT also announced actions to ease supply chain strains).

Vital Knowledge writes, “Given that supply chain disruptions have been a major driver of inflation (and inflation concerns), easing strains should help push yields at the long-end of the curve lower. Keep in mind that while conditions are set to improve, the enormous supply chain problems inflicted a lot of damage on Corporate America during Q3 (with problems lingering into Q4), something management teams are set to acknowledge as they report earnings in the coming weeks.” Fingers crossed.

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