

RAILROAD WEEK IN REVIEW

November 19, 2021

*“Most of the cost of the products we buy today is in their production, finance, storage, and transportation as goods are produced en masse and shipped around the world. In a world where it becomes much more economical to print locally, the entire infrastructure that exists to support movement and storage of goods will no longer be needed. That entire structure will collapse.” — Jeff Booth, **The Price of Tomorrow**, on 3-D printing or additive manufacturing*

“Mid-quarter railroad revenue units are tracking down about 3% on average, slightly worse than industry expectations of -2.5%. Commodity-wise, intermodal volumes are tracking down 8% QTD, while coal and merchandise volumes are tracking better than our expectations. Said differently, carload volumes are outpacing intermodal volumes QTD by 1,000 bp — the biggest spread seen in over a decade.” — Scott Group, Wolfe Research

“For many people, the trusty boxcar is the image that comes to mind when they think of freight trains. The boxcar is a highly versatile railcar. It can carry packaged freight, whether it's bagged, boxed, crated or attached to pallets. Boxcars may look simple at first, but they come in many configurations. Unlike intermodal trains that go from hub to hub, a train made up of boxcars goes to the source. It will pull right up to a manufacturing facility's loading dock.” — BNSF website

“We have three manufacturing plants (refrigerators, washers, components, and plastics) in Apodaca, Nuevo Leon; one stove, compact refrigerator, and semi-automatic washer operations in Celaya, Guanajuato; and another in Ramos Arizpe, Coahuila that manufactures duplex refrigerators.” — Whirlpool

Shortline and regional railroad merchandise carloads (total units less coal, auto, intermodal) for September, 2021, increased ten percent; AAR merchandise units increased only four percent. The non-Class Is saw double-digit gains in chemicals, aggregates, grain mill products, metals and products, and paper-related commodities. Each of these represents more than five percent of the total revenue units including everything for the entire non-Class I railroad community.

If you add back intermodal, automotive, and coal, total revenue units increased ten percent, but these three represent less than a quarter of all revenue units. Over at the Class Is, merch carloads represent just 31 percent of total units whereas intermodal alone is more than half of all revenue units (a box counts as a “carload”), 53 percent. Total ag was down, while paper, primary metal products, and aggregates were the large commodities with gains in double-digits.

Rio Grande Pacific, the shortline holding company based in Fort Worth, operated five regional railroads mostly in western US, augmented by also provides a railroad management system called Rio Grande Pacific Technology, which provides signal engineering design, technology

software and solutions to transit agencies, freight railroads and short line railroads across the United States. Clients are typically other regional railroads plus transit agencies.

Leveraging its competitive advantages in railroading and support services, RGP Tech is teaming up with Seattle-based Cedar AI and its transportation management system. The latter's Automated Rail Management System (ARMS) is a platform that provides a geographical projection of traffic at a shipper's facility.

To me, the RGP/Cedar AI collaboration will provide a level of competitive advantage not seen elsewhere in the non-Class I railroad network. With the changes in supply-chain and inventory management systems among transportation buyers, the combination will complement those systems very well. Imagine, for example, the ability to originate and terminate raw material for 3-D printing practically to the customer's work site. Wow.

Continuing the thread of companies moving products good for the railroad, both Lowe's and Home Depot reported excellent top and bottom line results for the third quarter. Total sales for the Lowe's 3Q increased two percent to \$23 billion; comp sales for for the U.S. home improvement business increased three percent for quarter. Net income was two \$billion vs. less than a \$billion a year ago.

Home Depot posted sales of \$37 billion for 3Q, up \$3.3 billion, or ten percent over a year ago; comparable sales in the U.S. increased six percent. Net income was four \$billion, up a point; comp sales in the US were up just a point year-over-year. As for the outlook, Morningstar says HD "should continue to capture top-line growth in 2021 bolstered by aging home stock and rising home prices." Morningstar says pretty much the same thing about LOW.

My take: building materials and other discretionary items for the home (white goods like washing machines, stoves, refrigerators from Mexico, for example) will ride the rails where they are reliable and cost-effective. Shortliners need to start canvassing their customers in the businesses for their 2022 estimates. Transloads will be particularly helpful where goods must go beyond the railhead to area distribution centers.

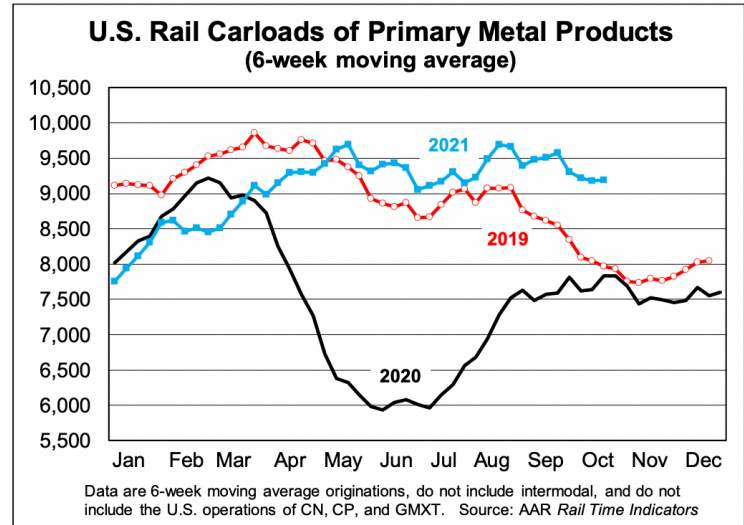
The charts supporting shortline commentary above show roughly six percent of total carloads are in primary metal products (coil steel rolls) and fabricated steel (I-beams) and, in recent years, these groups accounted for roughly four percent of AAR carloads.

Through October year-over-year AAR carloads of primary metals were up 15 percent and were the most for any October since 2018, — albeit the lowest weekly average since last February — and the most since January, 2014. Moreover, combined US and Canadian carloads of metallic

ores were up ten percent in October, their sixth straight double-digit percentage gain. Year-to-date carloads were the most since 2014.¹

The American Iron and Steel Institute (AISI) recently reported that U.S. steel shipments in 2021 through August were up 17 percent over last year. Their president recently told the *Wall Street Journal* that steelmakers are producing at the highest rate since before the financial crisis in 2008.

The producer price index for steel in August 2021 was approximately double what it was at the beginning of 2021 — a function, steelmakers say, of extremely high demand for manufactured goods that include steel.



There is a fair number of short lines in the fabricated steel sector, hauling everything from coiled steel rolls to re-bar to transformers destined to area utilities. I know of one short line in particular that built and equipped a steel transload facility to serve a local fabricator who was tired of ever-increasing line-haul trucking costs. So the business is out there.

End note: There will be no WIR next week. Happy Thanksgiving.

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¹Yes, ores are a small portion of the primary metals carloads, but it takes ore to make all that steel.