RAILROAD WEEK IN REVIEW
April 1, 2022

"Sustainable market share comes primarily through relative received product or service quality vis-à-vis competitors through the eyes of the customer rather than as touted by providers… relative quality is the single most important factor affecting long-term performance — changes in relative quality have a far more potent effect on market share than do changes in price." — Tom Peters, Thriving on Chaos, page 67

"NGFA understands that a variety of circumstances have contributed to the rail service disruptions, but we believe the impact is much more drastic and prolonged due to rail carrier decisions to overly adopt certain principles of Precision Scheduled Railroading and due to significant reductions in crew numbers. The ability to recover when normal rail operations are stressed has decreased significantly in the era of PSR." — Michael Seyfert, President, National Grain & Feed Assn.

"While spot market loads represent a smaller fraction of the broader truckload market (ranging from approximately 10%-20%), it is an important high-frequency indictor that provides a window into the current balance between the supply of freight capacity and shipper demand." — RW Baird, March 30

I asked rhetorically a couple of weeks ago why the analysts don't tell us why service metrics aren't getting any better. Loop Capital railroad analyst Rick Paterson answers part of the question in terms of labor, saying, "In short, the rails can't generate sufficient *customer confidence* to compete with trucks until service becomes more consistent, and service can't become more consistent until the issue that's always plagued the industry — sporadic crew shortages —is at least partially mitigated." (*emphasis added*)

Rick is really drilling down into Asset Management. He concludes, "We'd like to think the Great Resignation is the final wake-up call the industry needed with regard to its Achilles Heel: crew management, and there must be some strategies that can be employed to at least partially mitigate the problem going forward. It's also a big opportunity." Sooner or later one railroad is going to figure this out (CP is probably the closest at this point) with the reward being happy customers, accelerated volume growth, and a higher stock price.

It really gets down to Asset Management. That, you will recall, is one of the 5 principles of Hunter's "Precision Scheduled Railroading." In his *How We Work and Why*, Hunter writes, "Every process requires assets… [and] CN's success rests on our relentless pursuit of flawless execution." Here we get to Tom Peters' rule that quality is in the eyes of the customer, not the vendor.

Peters published his *Thriving on Chaos* in 1987 with all manner of ideas to create new customers with new offerings — providing the goods and services that customers say they need to remain competitive in their own space. Yet the Class I railroad community keeps doing the opposite of what Peters prescribes. No wonder customers are using trucks to get the tools they need for nimble and timely supply chain management.

The LTL providers are doing precisely that. They are historically biased toward the industrial customer and their fundamental network composition favors making the small and frequent arrivals their customers demand for today's fractionalized supply chains. Loads of a hundred tons or more arriving infrequently and unpredictably don't fit.

Some members of the shortline and regional railroad community have been quite successful in evening out the irregularities of Class I local service. Whereas the STB service stats tell us about train speed and dwell times, these numbers only reflect over-the-road trains between major yards: "local trains and yard jobs are excluded from train speed measurements."

Shippers presenting at the recent Reciprocal Switch hearings said they prefer siting facilities on short lines with access to more than one Class I. The reason is that short lines railroad help even out the Class I irregularities (WIR March 18) and keep business on the railroad. Which tells me that short line owners can help customers' commodity scheduling by suggesting moves from their short line to another short line using the Class I strictly as an overhead carrier.

The Russia-Ukraine conflict is having considerable effect on commodity pricing and movement. For one, domestic natural gas demand is increasing because the topic of energy security is a lot hotter now than it was two months ago. I'm reading that there will be fast-tracking of LNG shipments from the US to Europe.

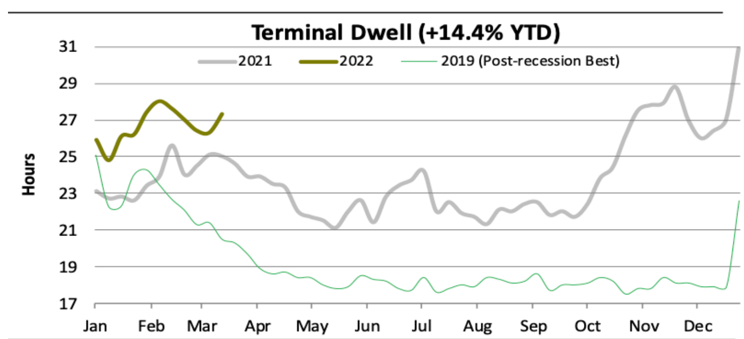
The nat gas price hikes to north of $5 per million cubic feet is affecting the nitrogen-based fertilizer trade because you need nat gas to make ammonia. Increased costs of fertilizer — and diesel for farm equipment and transport beyond — are going to push food prices higher, too.

I don't think the world going forward is going to look much like it was pre-February, and natural resources from nat gas to coal to corn are going to have a much bigger portion of the economic pie. In the stock market, the FANG stocks and the Nasdaq have had quite a run but in my opinion there will be greater interest in commodity futures as well as the millers and others who make STCC 20 products out of the STCC 01 crops.

Here's where the railroads can do very well. It's going to take a serious disruption of Business As Usual, placing and pulling cars according to customer supply chain management realities, not railroad convenience. On a non-Class I railroad you can place a car when the customer wants it and pull it when the customer is done with it. To be sure, the limitations of the Class I network kind of weigh against this kind of custom process, yet the short lines' flexility and resilience are key to adding to the customer roster as well as to volumes from present customers.

Norfolk Southern starts a new $10 billion stock buyback program today. Sometimes one has to wonder whether buybacks are the best use of cash reserves. Norfolk finished 2021 with net debt of $13 billion, up 12 percent from a year ago. Operating income not counting last year's asset-sale write-off was up 31 percent, not the reported 48 percent gain. The OR without the sale would have been 64.4, four points more than reported.

So far this year, system average train speeds are down and trains holding for crews are up.The percentage of cars on line not moving for 48 hours or more has increased, and, not unexpectedly, terminal dwell is up.



Surely cash can better be used to bring on the assets needed to provide the operational resiliency that wins new customers and keeps old customers.

A great light in the world of railroads has gone out. Jim Wrinn, Editor of *Trains* magazine for more than 17 years, died peacefully at home March 30 after a valiant 14-month battle with pancreatic cancer. He was 61.

I'm especially grateful to Jim for having brought me on to write about short lines more than a decade ago. He was one of the best editors I ever worked for. His knowledge of and love for the industry was unequalled and he was an inspiration to us all. Rest in peace, dear friend. We are all blessed for having known you for these many years.

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