RAILROAD WEEK IN REVIEW

April 8, 2022

"The coming crash in global food supply will be driven by a similar phenomenon across virtually every input into farming – they are all spiking to historic highs simultaneously, supply availability is diminishing across the spectrum, and the time to reverse the worst of the upcoming consequences is rapidly running short." — Doomberg, March 26

"We're going to see a world that, as the cliche goes, has inventories that are no longer just in time, but more just in case. We're going to build resiliency, which requires capex, which has been slow partly because labor has been so cheap." — Gerard Minack, Sydney-based macro strategist, April 1

"Measure what's important to the business; in particular shed the distracting biases of traditional cost-accounting procedures." — Tom Peters, Thriving on Chaos, page 482

North American Railroad YTD revenue units for Week 12 tell us we're not out of the woods yet. With only one more reporting week to go in the quarter, total revenue units were down 4.0 percent year-over-year. Intermodal got hit for a minus 7.6 percent whereas merchandise carloads including automotive eked out a ten basis point gain. Coal (see below) was the big winner, up 10.3 recent; non-metallic minerals (aggregates and phosphates, e.g.) gained 9.4 percent.

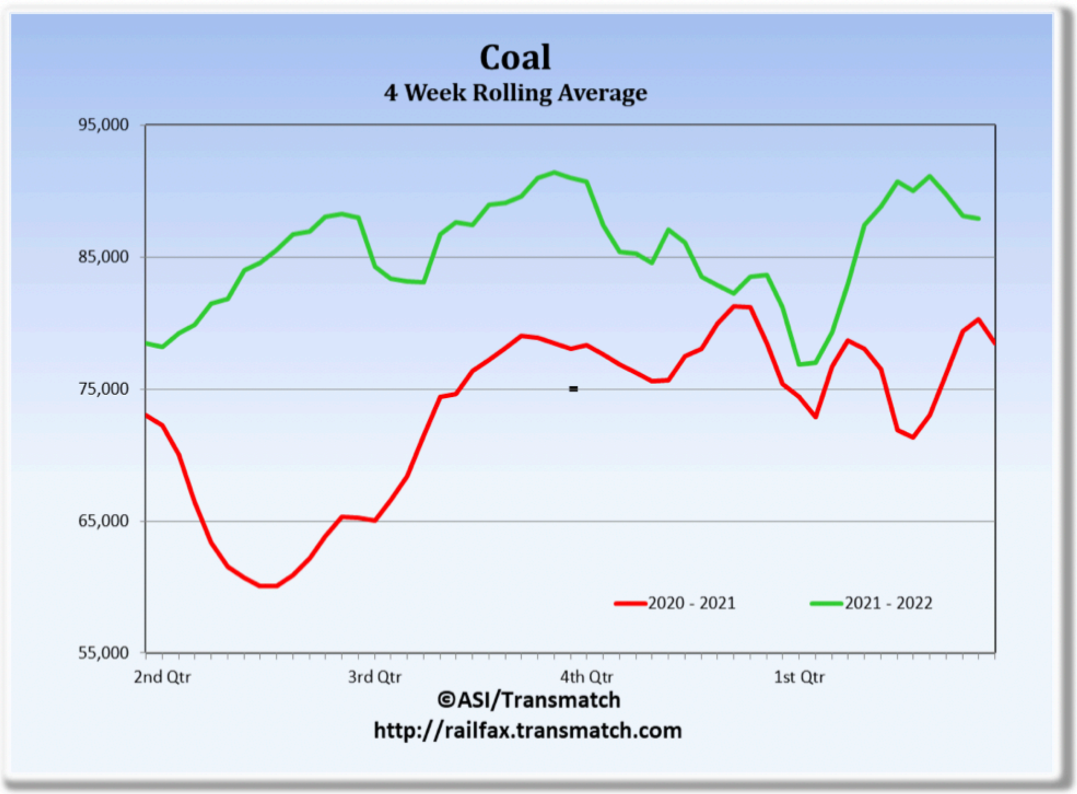
On the negative side of the ledger, grain dropped 12.5 percent and auto came down 10.9 percent. The auto numbers are not surprising; the grain story less so. One would think exports would be holding up. China alone has increased imports of US corn and beans. Mexico remains the number one destination for US wheat exports.

March grain exports from Ukraine were four times less than they were in Feb, mostly corn and wheat. Making matters worse, their railroads are having to cope with loads backed up approaching the usual Black Sea ports. The top export markets for Ukraine are the European Union, China, and India. Surely North American farmers can fill in some of the gaps left by the interrupted supply of tradable commodities.

Coal is at least getting a reprieve for now. This chart is for total North American carloads including Canada and Mexico. First quarter 2022 coal carloads are up 13.3 percent with the western roads in the lead: BNSF +14.5 percent; UP +31.7 percent. The east slumbers: CSX -11.9 percent; NS +1.2 percent. KCS was +3.5 percent.

North of the border there was a big swing — CN +86.2 percent, CP -2.5 percent — which I suspect is due to Teck export coal originated on CP now getting Kamloops to Vancouver over CN starting just a year ago. South of the border, KCS Mexico was +19.4 percent.

Tuesday the EU announced it is considering a ban on Russian coal, worth the equivalent of about US$4.4 million. Says the WSJ, "The proposed ban on Russian coal would be the first time the European Union has agreed to block one of Russia's main energy exports." It could also boost US east coast exports of steam coal.



"Farmers on the Brink," a March 26 Doomberg article, spells out just how the shift in nat gas supplies will affect farmers directly and food chains indirectly. Fertilizer (every N, P and K), Roundup weed killer, propane for drying crops, and diesel all require nat gas in their production process. In short, we're looking across virtually every farming input.

In fertilizer, ammonia is derived directly from nat gas. Belarus is the world's third largest potash supplier and was cut off by sanctions (likewise Russia, the number two potash supplier). China halted phosphate exports last fall to ensure adequate domestic supply. The combined impact of these events can be seen here:

Then there's weed control with Roundup (™) and others, containing both phosphorus and nitrogen. And propane for drying crops generally comes in bottled form (propane) to farms which as a rule can't tap into city gas lines. Diesel fuel for everything from farm machinery to pickup trucks is made with hydrogen, produced with natural gas, and went from an average of $4.03 a gallon in February to $5.11 in March.)

The pundits don't seem to think the US is facing any immediate food shortage. But keeping Cheerios on the table and hamburger in the fridge will require a resilient and responsive railroad network. There is a definite role for feeder railroads (pun intended) and their first mile/last mile responsiveness to keep cars moving and chickens laying.

Gerard Minack's point is that as the cost of labor goes up the relative cost of capex goes down. And so, with Covid mostly under control, the unemployment numbers improving, and hourly wages going up, the point is coming where it is healthier for the businesses to accelerate automation and decelerate work force expansion. Railroads?

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