RAILROAD WEEK IN REVIEW

May 13, 2022

"There have been 14 Fed rate hiking cycles in the post-World War II experience, eleven of which landed the economy in a recession. I pose the question back to you, is that just a coincidence? Or is it really a pattern — the Fed has had its thumbprints on every recession and every bear market," — David Rosenberg, May 3

"The Board is requiring service recovery plans and progress reports from the four largest U.S. rail carriers and is directing those carriers to participate in bi-weekly conference calls to further explain efforts to correct service deficiencies." — STB EP 770 Decision, Urgent Issues in Rail Freight Service

"The rail industry understands its critical role in serving the U.S. economy and is confident in its abilities to work alongside customers to remedy service issues moving forward. Railroads valued the chance to communicate their plans to the STB, customers and labor unions, and they will continue to update stakeholders on their progress." — AAR President and CEO Ian Jefferies

The STB Decision regarding service recovery plans of the four US Class Is comes as no surprise. It is clear the Board listened intently to the testimonies of railroad customers, railroad employees, and the railroads themselves during the Urgent Service Issue hearings April 27-28 and the price for continued service failure has ratcheted up. The May 6 EP770 Decision requires the four US Class Is to provide "service recovery plans and progress reports" and directs these railroads "to participate in bi-weekly conference calls to further explain efforts to correct service deficiencies."

Furthermore, "The Board is also requiring all Class I rail carriers to report more comprehensive and ***customer-centric*** performance metrics and employment data for a six-month period." [Emphasis added — rhb] The Decision cites "performance below historical norms" in train speed, trains holding for power/crews per day, customer embargoes, and terminal dwell.

The Board seeks "access to data needed for a more timely understanding" of these service failures and acknowledges there will be "no quick fix" to address them. Specifically, the Board wants weekly reports covering dwell times, daily train starts by type (intermodal, unit trains, and manifest), cars in storage, average car miles per day, and aggregate car-miles per week.

Then there are the unplanned events such as crews outlawing and failures in trip plan compliance. The Board is drilling down into first-mile/last mile (FMLM) metrics such as the "percentage of scheduled spots and pulls that were fulfilled," placement (actual or constructive) per trip plan, and trains — including locals — cancelled. I'm hopeful this will trigger a revision of the train speed definition to include loads and yard jobs.

Whether all this actually happens or is passed over by the C-Suites is open to question. Tony Hatch writes, "Railroads are aware of the situation, even if their handling of it from a PR point of view has been, say, awkward. 'PSR' may, unfortunately, be beyond salvaging. The phrase is almost toxic, despite the fact that it actually worked and that the US rails, the latecomers to the party, had substantially completed Phase One by January 2020. Several rails gamely tried to defend it – to deaf ears at the Board (and purposely plugged ones from the Trade Associations)."

As regards the STB buybacks vs. capex argument, a reader has done the homework and found that over the past five years it appears managements have used RPU rate increases partly to fund buybacks and dividends. He concludes that "unless the regulators had some type of control over where revenue went, they could not significantly impact the overall level of service. However, if more of managements bonuses were tied into improvements in service and not the value of railroads stock it would be very helpful."

Railway Age contributing editor Frank Wilner asks, "How, in currently highly volatile rail-shipper relationships, might the STB push on that regulatory string to encourage railroads unilaterally to improve rail service quality, such as by adding train crews and making Precision Scheduled Railroading (PSR) more customer-friendly?"

A reader in the shortline space is encouraged. "Personally, I'm feeling kind of optimistic that all this new reporting will actually be helpful. I think it could act not only as a motivator (desire to report improving numbers) but also as a management tool (in the sense that even though they probably all already have all these numbers, they weren't necessarily looking at them at the top executive level weekly)."

I hope he's right. Wilner again: "The 2015 STB Reauthorization Act gave the Board authority on its own to investigate service failures and impose remedies," which could take the form of fines approaching $9,000 per event per day. He concludes, "The torrent of rail service complaints stacking up at the STB begs for the common carrier obligation to be equipped with stronger jaws and sharper teeth."

“Demand destruction” is the theme many comments on the state of and outlook for the economy. It starts with high rates and high prices and leads to the consumer’s shifting focus from buying services to buying goods. It started as we got into the lock-down effects of Covid in early 2020. Once the initial dust settled, there was a surge in household durables goods purchase, leaving companies caught short of goods to sell.

Not knowing how supply chains were going to behave in this environment, companies shifted inventory management from Just-in-Time to Just-in-Case, going quickly from too little inventory to too much inventory. Thus supplier relationships became critical and manufacturer focus shifted from Know Your Customer to Know Your Supplier — knowing who could deliver how much and when was critical.

Suppliers of transportation services were not immune. Ease of doing business and reliability were critical and the ready supply of truckers from the Schneiders of the world to your local owner-operator was very accessible. Railroads? Try getting a rate in a week or for a local crew to place and pull on dependable schedule. Neither easy to do business with nor reliable.

Then inflation reared its ugly head. Paychecks can no longer support family buying patterns. Now the price of a new deck or dishwasher has risen to the point that consumers have to figure how to heat, eat, drive and still be able to buy the discretionary durables. When they can’t, the result is demand destruction — not only for goods but also transportation services.

AAR revenue units through April decreased three percent year-over-year with export grain leading the downward trend. Petroleum products, mainly crude oil, pulled down the chemicals group though industrial chemicals were up four percent. Intermodal dropped six percent. The US Department of Commerce says economic growth in Q1 was off 140 basis points on the widening trade deficit. Railroad shares for the Big Six have all dropped below their 200-day moving averages, a leading indicators of a slowdown.

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