RAILROAD WEEK IN REVIEW

June 3, 2022

"Approximately 1.2 million — 73 percent — of the railcars in service today are no longer owned by the railroads but are purchased, or leased, and maintained by non-railroad entities at little or no cost to the railroads that use them." — Railway Age, May 2022

"Diesel, in particular, has become remarkably expensive as refiners race to keep up with demand. Most U.S. consumers drive gasoline cars, so they don't see the diesel-price increase at the pump, but they feel the pain nonetheless. Trucking companies add fuel surcharges to their shipments that eventually must be paid by consumers. With oil prices likely to stay high, inflation may take longer to cool." — Barron's, May 31

"NS has been rerouting cars to other states, far out of route. For example, a railcar went from Elkhart to Ohio, then Pennsylvania, back to Ohio, then to New York, back to Ohio, only to return to Elkhart, IN. The unnecessary rerouting caused a 15- day delay. The total transit time from [origin to destination] was a staggering 26 days." — Shipper filing, STB EP 770, Urgent Issues in Freight Rail Services, May 27

"Roughly 620 constituent companies within the broad Russell 3000 Index failed to generate sufficient operating income to cover interest expense last year, Bloomberg notes today. That's triple the share of so-called zombie companies in existence on the eve of the zero-interest-rate era back in 2008." — Almost Daily Grant's., May 31

A dear friend of some 30 years writes, "Two comments: 1) Wall Street got what it pressed for, and now it is punishing the railroads for doing so (i.e., cutting costs to the bone so that there is no resiliency in the system); and 2) Generally speaking, Class I railroads' performance in 1997 was far better than what it is now. How can senior management look at themselves in the mirror and not be mortified with shame for such absolutely miserable performance and lack of readiness?

"I can see no valid excuse for this total screw-up, and they have no one to blame but themselves. They could have dealt with the institutional investor pressure head-on, but no, they decided to play their game in return for bigger bonuses. Will any heads roll? I seriously doubt it. Will any bonuses be cut to the bone? Hah!"

[As an aside, there's a long story on flight attendants in this week's *New Yorker* that mentions strings attached to the pandemic-related government bailout loans for the airline industry. Specifically, a cap on executive pay, no taxpayer money for CEO bonuses, no stock buybacks. Could this be a precedent for the STB? I mean, if they can assess fines for service failures, why not?]

Sorry thing is, there are no signs of the vaunted "pivot to growth." For instance, revenue units are down more months than not Jan 2021-May 2022, five of the six major carload commodity groups ex-auto and coal are down this year, with chemicals the only commodity group with positive momentum. And quarterly changes in dwell and train speed over the past two years are mostly in the red.

But it appears the Class Is will continue to say all the right things and as a result I don't expect any more action from the STB regarding rail service issues. Though there may be some near-term STB decisions on rail rate reform or reciprocal switching, I see nothing particularly draconian. Thus the Class I railroad community ought to feel quite comfortable with the rail regulatory backdrop and customers will either muddle through or seek other transportation providers.

I like to watch commodity trends by tracking share prices of companies in their respective spaces. As you can see, fertilizer and ag products figure prominently in the consumer staples and materials categories and are trading toward the tops of their ranges. They are likely to go even higher.

Symbol	Description	Industry	Sector	Sub-Industr ▲	SER-S	News	Prev Clc	Open	Last Trade	Change	% Change	Volume
ADM	Archer-Daniels-Midln	Food Products	Consumer Sta	Agricultural Pro	A		90.82	90.89	86.79	-4.03	-4.44	1,648,793
BG	Bunge Limited F	Food Products	Consumer Sta	Agricultural Pro	D		118.32	118.67	114.02	-4.30	-3.63	456,667
AA	Alcoa Corp	Metals & Minin	Materials	Aluminum	B		61.72	61.14	62.42	+0.7001	+1.13	1,542,124
CEIX	Consol Energy Inc	Oil, Gas & Cons	Energy	Coal & Consum	A		51.56	52.10	52.81	+1.245	+2.41	194,639
FCX	Freeport-Mcmoran Inc	Metals & Minin	Materials	Copper	B		39.08	39.32	39.33	+0.245	+0.63	3,753,616
SCCO	Southern Copper Corp	Metals & Minin	Materials	Copper	A		61.78	62.09	61.97	+0.19	+0.31	277,343
CF	Cf Industries Hldg	Chemicals	Materials	Fertilizers & Agr	B		98.77	98.93	95.63	-3.14	-3.18	736,165
FMC	F M C Corp	Chemicals	Materials	Fertilizers & Agr	C		122.58	122.57	121.36	-1.22	-1.00	197,825
IPI	Intrepid Potash Inc	Chemicals	Materials	Fertilizers & Agr	C		65.87	65.87	60.72	-5.1475	-7.81	283,355
MOS	The Mosaic Co	Chemicals	Materials	Fertilizers & Agr	C		62.50	61.80	58.50	-4.00	-6.40	3,123,926
ANDE	Andersons Inc	Food & Staples	Consumer Sta	Food Distributo	C		37.61	37.69	36.87	-0.74	-1.97	83,561

The Economist: "Russia's invasion and the sanctions that followed have caused prices to climb further. In 2021, 25 countries got more than 30 percent of their fertilizer from Russia. In many eastern European and Central Asian countries that was over 50 percent. In Europe, energy-security concerns are restricting the use of natural gas to make nitrogen-based fertilizer."

With nat gas pushing $10 here in the US and multiples of that in Europe, the situation isn't likely to improve any time soon. Tells me if I have farmers and fertilizer vendors on my railroad I'd want to stay well abreast of what they're seeing.

The FRA Fiscal Year 2021 Consolidated Rail Infrastructure and Safety Improvements (CRISI) Program has awarded nearly $369 million in upgrade funding for non-Class I railroads with a total of 46 projects in 32 states. Many awardees are active ASLRRA short line railroad members. Here is the ASLRRA press release.

Non-Class I railroads serving local communities find CRISI a particularly attractive program, as a railroad can apply directly for a grant, and many types of capital projects typical of a short line are eligible under the grant. Short line railroads can also apply for the program in partnership with another eligible entity, such as a state department of transportation or a rail authority.

It is important to note that infrastructure improvements including welded rail, bridge rehabilitation, and highway crossings are at the top of the list and and are distributed across large and small properties. Awards range from just under a $million to more than $21 million. Says ASLRRA President Chuck Baker, "With so many challenges facing the country's supply chain, these awards will boost American competitiveness by strengthening weak spots in the rail network and removing bottlenecks across many industries." Can't argue with that.

***Railway Age* kicks off yet another** (eight annual) Rail Insights Conference June 23. It's a virtual conference so no time wasted on travel or money spent on travel. Union Pacific chief executive Lance Fritz leads off in a discussion that will be largely focused on service recovery and supply chain congestion. His remarks will be followed by a "fireside chat" with *Railway Age* Editor Bill Vantuono. I expect the two will touch on the recent STB Urgent Issues hearing and what it means to UP going forward.

The focus of the Rail Insights Conference is, as always, exploring what is affecting business growth, capital investment, technology, regulation, service quality and safety in the North American rail market—freight and passenger. What are the strategic challenges and trends facing the industry for the rest of 2022 and into 2023?

Also in the line-up are such industry leaders as CSX Executive Vice President and Chief Operating Officer Jamie Boychuk; Amtrak President and CEO Stephen Gardner; Watco CEO Dan Smith; STB Chair Martin Oberman; and GATX Executive Vice President and President, Rail North America Paul Titterton. Very much looking forward to it.