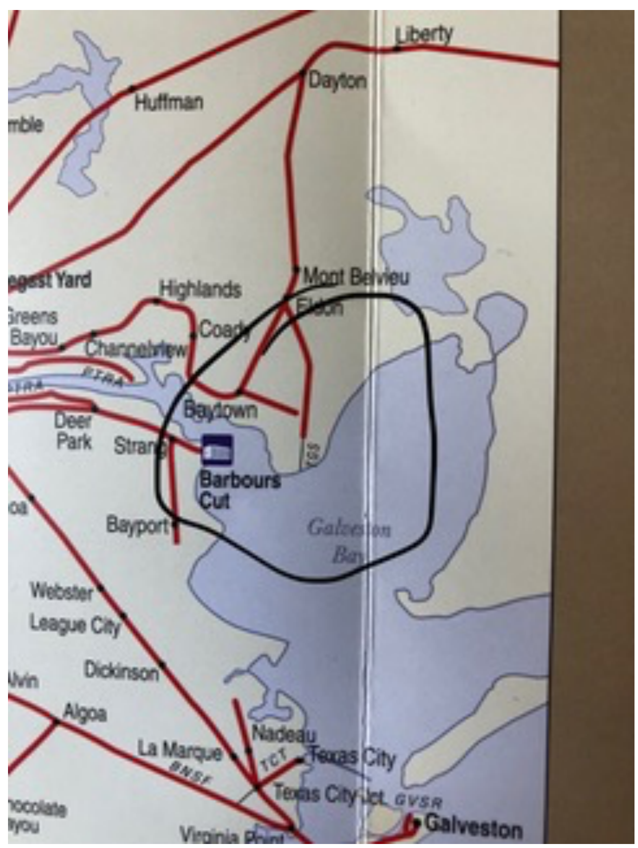
RAILROAD WEEK IN REVIEW
July 15, 2022

"TGSLP (the owner of the Track) and TGSC have reached an agreement pursuant to which TGSC will acquire the right to conduct railroad common carrier service on the Track. TGSC will offer common carrier service on the Track on or after the effective date of this exemption. The service will constitute the entirety of TGSC's railroad operations. — STB Filing FD 36627, July 7

"Some 60,000 would-be homebuyers walked away from their sale agreements last month, data from Redfin show, equivalent to nearly 15 percent of all contracted purchases in the U.S. That's the highest such share since the depths of the Covid panic in April 2020. For context, 11 percent of would-be buyers cancelled in June 2021." — Almost Daily Grant's, July 11

The STB's concern about first-mile/last-mile (FMLM) services is being neatly addressed in the Houston area. Trans-Global Solutions (TGS) is a Houston-based provider of contract rail switching services and related support work. For some years TGS has operated as the TGS Cedar Port Railroad LLC, operating inside Cedar Crossing, the largest industrial park on the Gulf Coast.



According to the STB filing, "TGS Cedar Port Railroad LLC ("TGSC"), a non-carrier, files the present notice of exemption for purposes of initiating railroad common carrier service."

Heretofore the track in question has been an "unregulated private industrial track" under the control of TSG. Common carrier operations are slated to begin August 6; based on projected revenues, TGSC expects to be a Class III rail carrier.

Cedar Port operates more than 100 miles of industry track and support yards within its 15,000 acre footprint — enough space to store up to 5,000 cars — and of which 10,000 ares are "undeveloped and available for future expansion."

The customer list includes heavy hitters like Home Depot, Walmart, JSW Steel, Century Asphalt, IKEA and GE. Both UP and BNSF serve the facility, originally part of a US Steel complex. See the fine black line at the end of the red vertical line in the map.

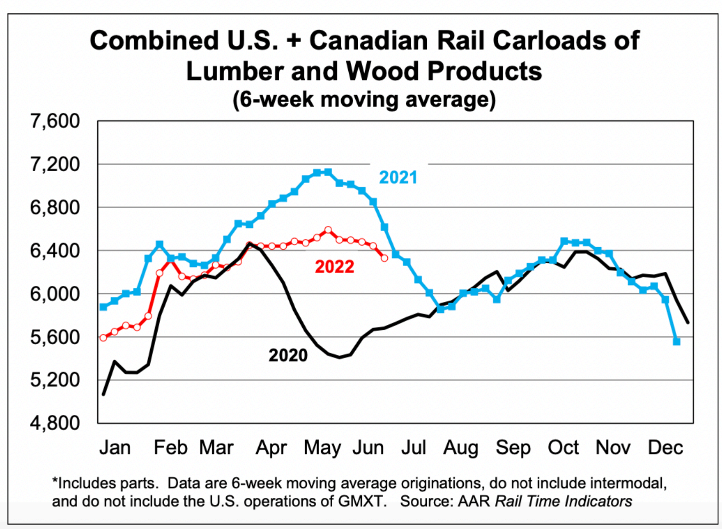
Although TGS contract switching services have done the honors (I visited the place more than 20 years ago when it was operating as Econorail), the STB filing tells us, “The railroad and industrial park have determined that the park and its various customers would benefit from the provision of railroad common carrier service.”

Understandable. As a contract switcher, TGSC has to bill every customer for the services performed or has to convince every commercial tenant to pony up some portion of the total cost of providing rail services in the industrial park. By becoming a Class III railroad, TGSC becomes a feeder line to both its Class I roads. As such, it will get a flat fee per car from the serving Class I and the only bill the customer sees is the Class I invoice based on the line haul.

Though TGSC has been there all along absorbing any potential Class I FMLM foibles, the partners to the filing have streamlined the relationship, taking steps out of the process — steps that add unnecessary complications to the relationship. Kudos to all.

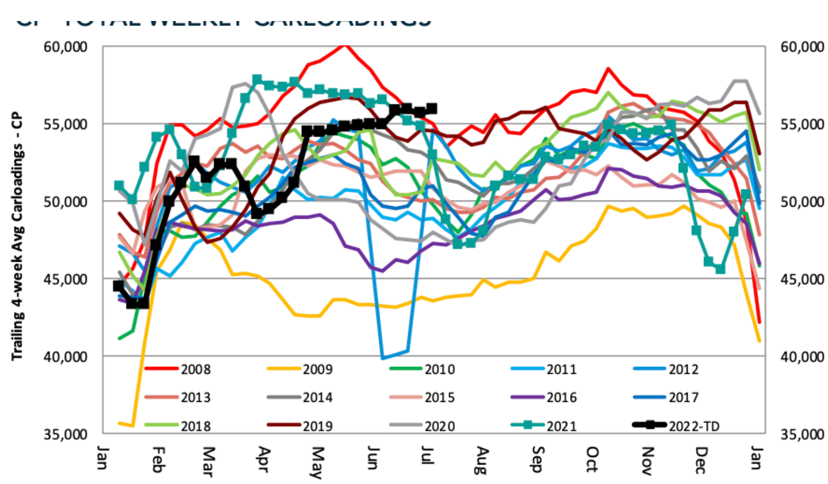
Chicago lumber futures have tumbled to $650/mbf (thousand board-feet), down 60 percent from their March peak of $1,470. The drop in new-home sales can be blamed. AAR STCC 24 carloads in the US dropped 7.5 percent in June alone, their eighth straight month of decline, taking the YTD car-count down 3.6 percent. The AAR reminds us “Most of lumber and wood products is used for building construction, which is why there’s a clear positive correlation between rail carloads of lumber and wood products and U.S. housing starts.”

The AAR combines U.S. and Canadian carloads for this category because much of the lumber consumed in the U.S. originates in Canada or in areas served by the U.S. subsidiaries of Canadian railroads.



Canadian Pacific must be doing something right. I run a stock screen that shows all five Class Is plus Berkshire as a placeholder for BNSF on one page. CP is the only one anywhere near its 200-day moving average (yellow) and above the 50-day (blue) and 20-day (red).

The CP carload chart year-to-date is also pretty powerful. Bascome Majors at Susquehanna Financial Group puts up this chart for each of the Class Is on one page. Of the lot, this is the strongest. Sharply up and to the right and ahead of all previous years.



The slope of the Jan-June line (rate of change) is steeper than any of CP's peers, which tells me they're building the business base at an accelerating pace.

We got a taste of what CP is up to when John Brooks, CP's chief marketeer, sat down with UBS rail analyst Tom Wadewitz at his spring transportation conference a week ago.

Said Brooks, "We've done a good job of targeting surgical growth to our network. We announced an agreement with CMA. We've got the Hapag-Lloyd at Saint John. We've got a couple of energy related pieces of business starting up the back half of the year. We're going to get a good Canadian grain crop this year. Put it all together and we see full year RTM growth." And so it is the winning ticket keeps on winning. Love it.

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