RAILROAD WEEK IN REVIEW
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"A final concern is the lack of institutional knowledge among House and Senate staff who must navigate speed bumps even were political polarization not an issue. But Congress has not acted to end a nationwide rail shutdown in more than 30 years, and only two congressional staff members who participated in ending those remain alive, with both long in retirement." — Frank Wilner, Railway Age, August 15

"According to Redfin, approximately 63,000 home-purchase agreements were cancelled in July, corresponding to roughly 16 percent of the properties that went into contract last month. That was an increase from 15 percent of cancellations in June. When the housing market was running hot in July 2021, about 12 percent of the deals fell apart." — Schwab.com, August 17

Not being particularly well versed in the political ramifications of rail labor dispute resolutions, I will leave the bookmaking to the professional handicappers. Loop Capital head rail analyst Rick Paterson and *Railway Age* Capitol Hill Contributing Editor Frank Wilner come first to mind.

Paterson has suggested three possible outcomes. First, the parties come to a voluntary agreement prior to September 18. Second, Congress legislates to avert a work stoppage by September 18, sending rail and labor into final binding arbitration, a process that locks in a solution. Third, the parties say no thanks and walk away from each other at some point after September 18.

Rick puts the odds of a voluntary solution before September 18 at four out of ten, final arbitration at 50-50, and a total work stoppage at roughly one in ten. The way I read Rick, scenarios 1 and 2 don't result in a strike, ergo 90 percent (40+50) odds in favor of no strike and the odds of a strike of one in ten.

Wilner writes that even if the Presidential Emergency Board recommendations may not in fact be accepted right away, the Railway Labor Act prohibits a strike or lockout for 30 days after the PEB has had its say. He cautions that, "Even if all 12 rail unions reach an agreement with carriers prior to Sept. 18, it is a tentative agreement that must then be ratified by the affected membership of each rail union. So a strike could still occur at a later date."

Worst case, the railroads quit running. Only Congress can short-circuit a rail work stoppage. Typically, following a nationwide rail shutdown, Congress quickly passes back-to-work legislation that can take many forms. But how long that would take?

There hasn't been a national railroad stoppage in thirty years, and the Congressional institutional knowledge of how to deal with such things has left the scene over the intervening years, leaving nobody with the negotiating experience to resolve the issues in a satisfactory manner for all. Wilner accurately notes, "The threat this time is election-year politics and unprecedented polarization of Congress. Even a single maverick lawmaker, seeking celebrity status or trolling for votes ahead of Election Day, can create parliamentary havoc."

So even if Rick's strike odds are one in ten, there's still a chance. Willer concludes, "A resolution imposing baseball-style arbitration, as a last best offer is commonly known—requires labor and management each to provide a last best offer as a single package, with congressionally appointed arbitrators choosing one party's offer over the other's, with no revisions. The prospect of being stuck by the arbitrator with the other side's last best offer is very scary."

Given the combative tone of labor's remarks at the STB service hearings in April, I would err on the side of caution and advise railroad customers to pre-position safety stocks starting now. But it's a fine line to walk between building strike insurance inventory and the ISM's signs of a manufacturing slowdown. And the only way to do that is to get very close to your customers and position your assets accordingly.

Even though the PEB recommendations kinda, as my good fried Tony Hatch so succinctly put it, "split the baby," in this political/economic/jobs/service environment it surely could have been worse for the rails and their owners.

"Though the devil is in the details, the headline is that the wage increase of 22 percent (retroactive to 1/1/20) splits the difference between the rails' 16 percent proposal and the unions' 28 percent offer (plus $5K in "service recognition bonuses"), with little changes in benefits and work rules and with scheduling recommended to arbitration.

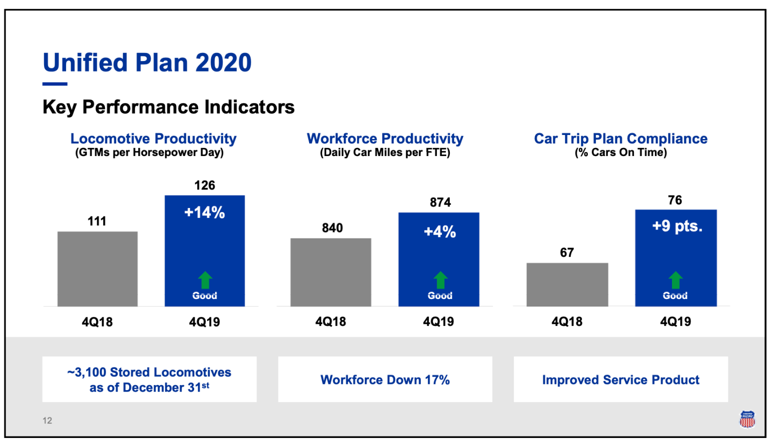
"The bottom line, so far anyway, is that the rails can live with this. For their part the AAR issued a statement saying that the PEB report 'provides a useful basis to reach a resolution' and that the industry is 'prepared to propose agreements based on the PEB's recommendations.'"

Labor Productivity is a topic that pops up occasionally in earnings calls and analyst notes. But I've never been able to nail down precisely what it measures, though in the classic sense one might say GTMs per employee. Seems to make sense. At NS, for example, headcounts are up yet carloads are not.

I think what we're seeing here is the effect of adding heads but the newbies aren't yet qualified so they can't be out there running trains. I'm seeing glimmers of hope that NS is actually getting closer to their customers (Thank you, Alan Shaw). Which means more truck-to-rail converts and more local freights to run.

There's a caveat, though. A reader with decades of experience reading railroad tea leaves observes, "RRs are fond of measuring GTMs and GTMs per _____ . GTMs have increased more as rails failed to make intermediate moves and constantly move freight past its destination a couple times." So it LOOKS like GTMs per employee are improving. Not. It really means that a chunk of the GTM movement is unproductive backing-and-forthing.

Union Pacific measures car-miles per day per full-time employee and has shown that as miles/FTE improves so does trip plan compliance. That suggests that revenue carloads are moving as they're supposed to and employee productivity is heading up. Dwell time can affect employee productivity, too. Cars standing still don't turn any GTMs — as dwell goes up productivity goes down.



So if customers and connections are looking for cars that are running late, a good place to start is employee productivity, trends in GTMs, and yard dwell. Then call the Class I contact and ask him to explain what you're seeing and ask where your car is and when you can expect it. Then you're starting the discussion with the facts.