RAILROAD WEEK IN REVIEW

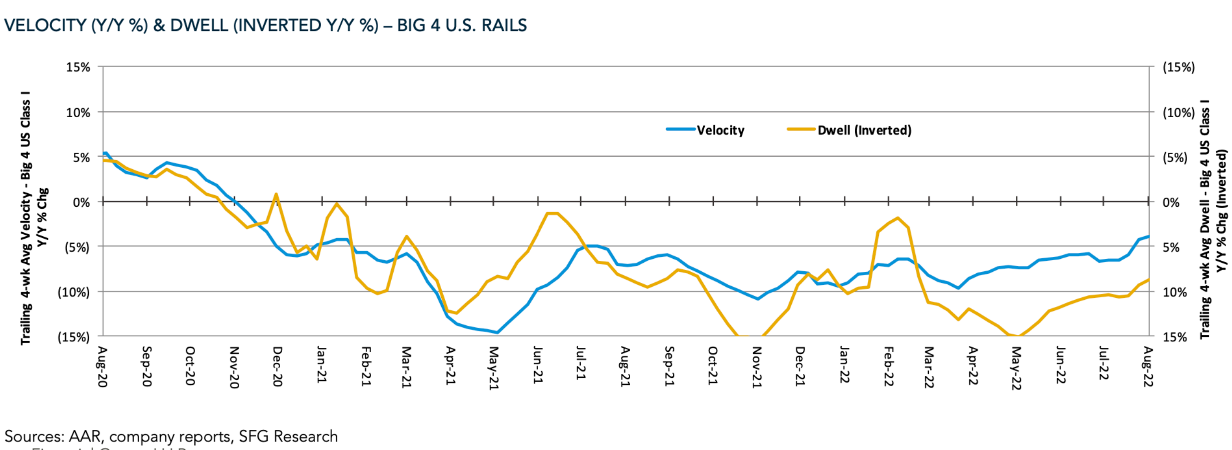
September 9, 2022

“In this current (unique) cycle, the labor market is perhaps the best one to capture the good news is bad news mantra that has developed since the Federal Reserve (Fed) embarked on its rate-hiking cycle. From the perspective of policymakers, weaker labor data (bad news for workers) is a welcome development, as that would theoretically produce some slack, lead to less-hot wage growth, and ultimately help bring demand back into balance with supply.” — Liz Ann Sonders, Charles Schwab, September 6

“A looming stumbling block is gaining membership ratification of tentative agreements, as fringe elements of the labor movement have launched independent social media campaigns urging rejection—one including an alleged survey that violates scientific criteria for random sampling. To counter misinformation, SMART-TD and BLET published for members a ‘Myth vs. Facts’ slide deck, while the organizations reaching tentative agreements similarly are seeking to dispel, through communication with their members, factual inaccuracies.” — Frank Wilner, Railway Age, September 3

AAR Revenue Units for Week 35 continued their downward trend year-over-year. Total units declined three percent based on merch carloads unchanged and intermodal off five points. The carload growth was largely due to mid-single-digit gains in chemicals, aggregates, and coal. Hardly robust — coal can’t last, chems is largely a captive market with sky-high RVCs, and aggregates are heavy and cheap with slim RVC margins — under 2, mainly. Not what you’d call a seller’s market for rail freight services.

I think there are two reasons first and foremost. One is the general economic malaise causing customers to keep inventory on hand closer to what’s needed near term. The other is the continuing loss of share to trucks due in part to relative service quality.



Sources: AAR, company reports, SFG Research

This chart, courtesy of railroad analyst Bascome Majors at the Susquehanna Financial Group, speaks volumes. The blue line is the two-year velocity trend since August, 2020. Two years ago system average train speed was running five percent above the then trailing four-week moving average. It's now five percent below that metric (right scale). And this is only road trains.

The AAR definition of *velocity* is "the speed of a train from origination to destination, including the amount of time a train dwells in a yard for a crew change, pick-up or set-off of traffic" and includes intermodal, manifest and unit trains running point to point. Velocity is not calculated for local and yard trains, passenger trains, or MOW trains. Also excluded are overhead trains operated by another railroad using the host railroad tracks.

As velocity numbers deteriorated, so did terminal dwell (right hand scale). Two years ago average terminal dwell was five percent better than its four-week trailing average. Since then, terminal dwell has increased to the point where it is now ten percent worse than the trailing average.

It's a simple calculation. Dwell for a single car is the total time, in hours, that a car spent in a given terminal. Aggregated dwell is calculated by dividing the total number of hours cars spent in terminals by the total count of car dwell events (excludes bad-order cars, maintenance of way cars and stored cars).

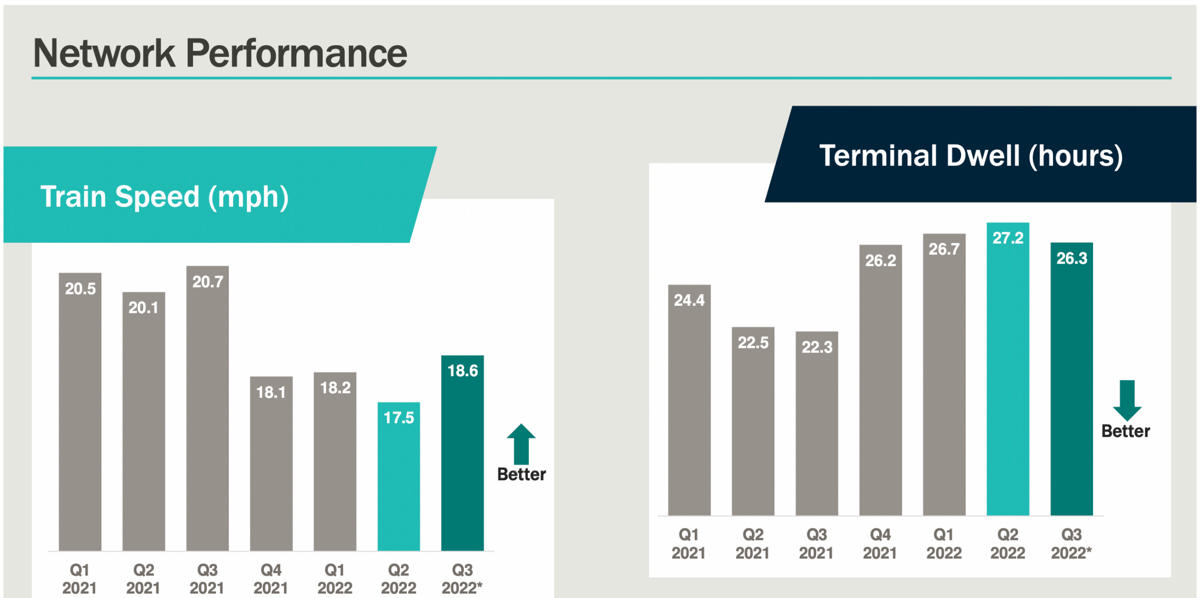
The later a train arrives, the greater the chance its cars will miss their connections, or their connections are being held for tonnage. Either way, dwell goes up. Transit times between OD pairs increase and first-mile/last-mile performance suffers. The fact that it's not getting any better is shown by the above deterioration on dwell and velocity.

As noted above, chemicals, coal, and aggregates were the biggest contributors to Class I merch carload growth for the year thus far. The non-Class I railroad group follows very much the same pattern, as you'd expect. The Railinc shortline carload summary for July sorted in decreasing order according to percent of total carloads, puts them in the order of chemicals, aggregates, grain, and metals.

Within chemicals, the AAR says plastics, ferts, and ethanol are the top three commodity groups with the first two most widely dispersed among the non-Class I community. In aggregates, crushed stone is top of the heap by far with more than twice as many loads as second place "industrial" sand — mainly the fracking variety. Corn remains the top gain in the cars followed by beans and wheat. Looks like the non-Class Is ought to be in relatively good shape.

Norfolk Southern Week 34 (Aug 27) year-to-date total revenue units dropped four percent — intermodal shed six percent and merch carloads slipped two percent. Just looking at the merch commodities that lost ground I counted ten year to date, nine for the quarter, and eight for the week.

Just a month ago CEO Alan Shaw showed how system velocity and dwell times were headed in the right direction. Weekly recrews were comfortably under the nearly 500 per week reported mid-June and manifest trip plan compliance hit 63 percent in August, up from 48 percent in May. Though Norfolk isn't saying, I suspect that TPC scores terminal to terminal and doesn't include first-mile/last-mile.



My channel checks among short lines reveal irregular interchange frequencies, some with a hundred cars, some much lighter. As we heard from the shipper testimony at the STB Urgent Issues hearings in April, short lines are able to absorb some of these irregularities with extra place/pulls and transloads where appropriate.

It might be an instructive exercise for Norfolk's non-Class I connections to start tracking NS trip plan compliance to interchange. Did they show up as promised? Did they have the right number of cars for the right customers? Recall a few years ago NS made a great fuss about Interchange Service Agreements. I'd love to know about compliance today.