RAILROAD WEEK IN REVIEW
September 23, 2022

“The appointment of Joseph R. Hinrichs as CEO is the result of a long and deliberate process, in which we identified the strongest candidate to lead CSX through its next phase of growth and transformation… Joe is a seasoned leader whose great strength is operational excellence.” — CSX Press Release, September 15

CSX CEO Jim Foote steps down September 26 after having been at the helm since December, 2017. He had been brought over from CN by Hunter Harrison when the latter was hired in March 2017 as CEO to implement his much-heralded Precision Scheduled Railroad (PSR) that dated back to his days with Gil Lamphere at the IC and brought successfully to the CN and CP over the years. He had not been well and passed away in December of that year. Foote was named to succeed him as CEO.

The move to PSR did not go well. Rather than implementing PSR in an orderly fashion as CN and CP had done, CSX cut corners and went directly to cost-cutting, giving short shrift to Hunter’s principles of Service, Cost Control, Asset Utilization, Safety, and People (see page 10, *How We Work and Why — Running a Precision Railroad*, by E. Hunter Harrison, © 2005)

On Foote’s watch earnings per share after items increased at a respectable 12 percent CAGR; earning with items actually fell eight percent. Revenue over the five years grew just under two percent CAGR. The earnings growth was almost entirely on cost-cutting, below-the-line items, and share buy-backs. But still — Earnings up, Street happy. Customers less so as we’ve seen from this year’s STB hearings on service.

Evidently the CSX Board did not see their C-Suite as having the bench strength it wanted for their new CEO. And so it was they went outside the company and the industry (as did CN) with their recent CEO search. Former Ford president Joe Hinrichs got the nod, though Foote “will continue to work with the Company through March 31, 2023 as an advisor to facilitate a seamless leadership transition.”

At Ford, Hinrichs was an important CSX customer. Last year CSX moved some 318,000 automotive carloads (finished vehicles and parts) worth $7.5 million in revenue. Average RPU was $2,932, roughly half again the system average RPU of $2,003, and some five percent of the CSX total book of business. Last year auto carloads were down eight percent year-over-year.

Hinrichs clearly has his work cut out for him. Week 37 (September 17) revenue units are down 40 basis points with carloads including auto and coal down a point and a half and intermodal up less than a point. Of the 18 carload commodities the AAR tracks, all but six are down year-to-date. Non-Class I railroad connections in the Selkirk area in particular are reporting slowdowns and interchange problems that are harming hard-won customers.

Case in point: as part of its growth-by-acquisition program, CSX paid $601 million in stock and cash for New England's PanAmRail, itself the amalgamation of the former Boston & Maine and Maine Central Railroads. As PAR's freight business evolved from paper to chemicals and distribution, there was always someone working to reengineer their supply chain to give the railroad less to move, so new business development was critical. And since all that business feeds through Selkirk, having that facility running smoothly is the only option.

It isn't. A month ago the National Waste & Recycling Association wrote to the STB specifically about service interruptions in New England: "For example, in Boston, NWRA members are unable to load rail cars due to ongoing service issues involving the delivery of rail cars. In the meantime, railcars loaded with waste are waiting to be moved out by the railroad. Another example, in Connecticut and New York, rail operations are being negatively impacted due to the excessive backlog of cars waiting to switch at CSX's Selkirk Yard in Albany, NY."

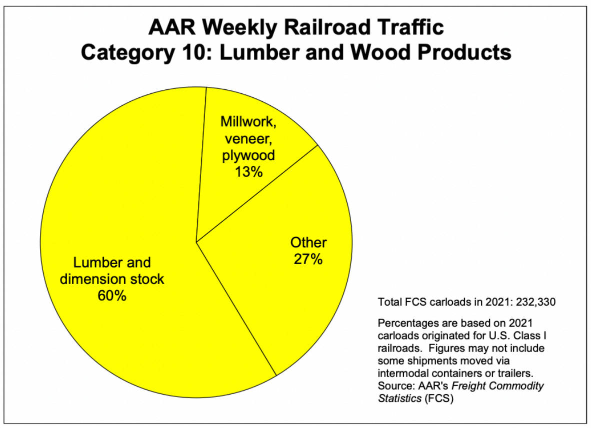
More recently, a number of CSX customers have told me of delayed deliveries, hold-outs, missed interchanges and yard delays due to Selkirk problems. All considered, I think CSX is working very hard to keep operating metrics in line but at the expense of first-mile/last-mile performance. Holding trains out doesn't affect reportable dwell times and trains held out can be shown as arrived. Keeps TPC numbers up.

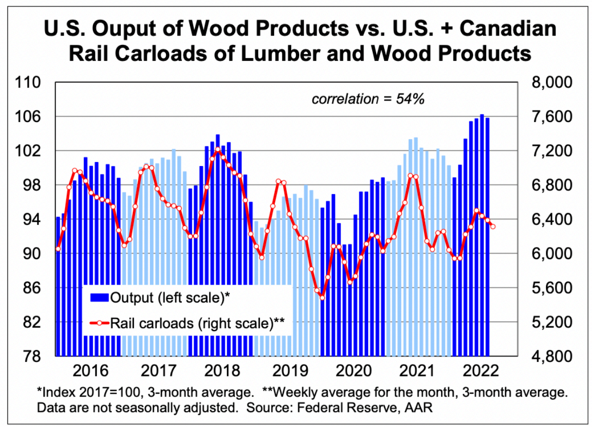
Now comes a scathing letter to the STB from the SMART Transportation Selkirk local. The Chairman writes, in part, "Daily, our yard crews are ordered to use non-complying locomotives because we do not have enough spare engines to properly fix the ones that have defects, and crews are operating switches that are hard to operate because there are not enough maintenance workers to properly adjust or lubricate them."

After three pages in a similar vein, he concludes, "We are now down roughly 75 transportation employees (guesstimate) at the Selkirk terminal, CSXT has taken over the PAN-AM railroad, Selkirk Yard is bursting at the seams, and we have 15 to 20 trains destined for Selkirk parked on the main line anywhere between Buffalo N.Y. and Philadelphia PA." Hardly a Precision Scheduled railroad.

From **briefing.com** we learn “Total housing starts increased 12 percent month-over-month to a seasonally adjusted annual rate of 1.575 million units, driven by a whopping 28 percent increase in multi-unit starts. Building permits, on the other hand, were down ten percent month-over-month to a seasonally adjusted annual rate of 1.517 million paced by a 17 percent decline in multi-unit permits and a four percent decline in single-family units.” That bodes ill for future housing-starts.

AAR STCC 24 includes lumber and dimension stock, millwork, veneer and plywood. The AAR combines U.S. and Canadian carloads in the charts 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.





The pie chart shows dimensional lumber the dominant product in STCC 24. The bar chart shows that even as production is on the increase, RR carloads are on the decrease, meaning railroads are losing market share even as the number of carloads has remained fairly constant. Railroads may be looking at a smaller slice of a smaller pie as housing starts slide.