RAILROAD WEEK IN REVIEW

September 30, 2022

"Short lines can respond to variable customer car placement and car qpulling requests at the customer's location. That's harder and more expensive to do when you have the cost structure per hour of time of a Class I railroad, or the rigidity of a large-network-scope track plant." — Jim Blaze, railwayage.com, September 23

"Historically, declines in transportation stocks have indicated rough economic times ahead amid lower demand for goods, materials and travel—which is widely expected as a result of the Federal Reserve's most aggressive tightening cycle in decades." — Wall Street Journal, September 25

"We believe the mid-November ratification vote counts enable Congress to impact the rail labor process more actively than when the RLA's final cooling-off period ran out in mid- September and national strike fears became front page news. Mid-term elections are the prior week on Nov. 8, and with that out of the way Democrats should have more political cover to support back-to-work legislation" — Bascome Majors, Susquehanna Financial Group, September 25

The non-Class I railroad community commodity base is an excellent measure of the total railroad manifest carload business. According to Railinc, intermodal containers and trailers account for less than 12 percent of the total revenue units handled by the smaller railroads. Coal is five percent and automotive is less than three percent. Which means classic merchandise carloads of everything from aggregates to waste represent four out of every five revenue units touching a short line or regional railroad.

We also know from the STB Urgent Issues hearings back in April that customers find the first-mile/last-mile (FMLM) performance of these independent railroads to be generally superior to the Class I offerings ithis regard. However, for any of this to work there has to be a demand for railroad services. Seems to me — and to the WSJ, above — that demand may be diminishing. And diminishing demand for transportation services is a leading indicator for the economy in general.

Here's chart of the Dow Jones Industrial Average with the IYT transport index and XLY Consumer Durables ETF overlaid. (You should be able to expand the chart by double-clicking and spreading.) The DJIA is the candle sticks, the IYT is yellow, and the XLY is blue. See how they all move together.

The XLY is important because it reflects the state of health of the consumer discretionary sector — everything from automotive to appliances to home improvement to sneakers and TVs. As their businesses ebb and flow, so does their demand for transportation services.

Following these trends is critical for railroad managers who have to plan for the resources needed tomorrow based on what's happening today. The Dow Jones Theory teaches us that the direction of transportation share prices is a leading indicator of the economy in general. Ergo attention must be paid.

The fall NEARS conference in Pittsburgh was another successful outing. Presenters and panelists included Mike Miller (GWR), Arthur Adans (CSX), Bernard Hoffman (US Steel), Peter Jones (Greenbrier), Joe Kelly (Shell Polymers), Jeff Senchak (Koppers), and David Shannon (Rail Pulse).

Once again, the over-riding tenor was one of carload shippers' general dissatisfaction with the railroads. And, once again, we heard how short lines can absorb a fair amount of Class I mis-steps in first-mile/last-mile movements. Miller, GWR President for North America, held forth on this very topic with examples of short line support designed around customer supply chain needs.

For example, GWR's 50-mile South Buffalo Railway partnered up with CN for a truck-competitive 100-mile move of Ford auto parts between the stamping plant in Buffalo and the assembly plant near Toronto. South Buffalo makes a Ford block for CN, allowing three-day round trips between facilities.

The downside is a short line's service offerings dood-to-door are only as good as their connecting Class Is, where the merch carload product remains mired in the past. Thirty years ago one of my very first *Railway Age* columns was about a two-carload move of STCC 20 canned goods from a shortline customer a Class I customer 1,200 miles away.

The total transaction I wrote about took nearly three weeks. It took a day to get a rate from the origin short line's connecting class I, five days to find a car, and a week to get the cars placed for loading (shipper loads the cars in a day). Three days later the Class I pulls the car at interchange and delivers it to the receiving railroad three days later. The customer receives his cars of canned fruit a week later.

Things haven't changed much according to customer feedback. We know from the STB Urgent Issues hearings back in April that customers find the first-mile/last-mile (FMLM) shortline performance to be generally superior to the Class I offerings in this regard. No wonder it looks like demand for carload freight may not be what it once was — say 50 years ago.

If demand for carload freight — and transportation in general per the Dow Jones Transport Index — is diminishing, that could spell trouble for the economy as a whole. Transit times are down, dwell times are up, trip plan compliance reports are unreliable, and customer contact is negligible. So the question remains, how do we get from railroad time is any time to railroad time is when you need it? Trucks do it all the time; transportation providers that don't will get a smaller piece of an ever-shrinking pie.