RAILROAD WEEK IN REVIEW
November 4, 2022

"Here's a double-edged problem created by railroad service issues. On the one side, it feels like there aren't enough cars to meet demand. On the other side, there aren't enough crews, and service on the railroads isn't good enough to meet the needs of those customers that want to ship by rail." — David Nahass, Railroad Financial Corp.

"Winning the ASLRRA President's Safety Award award is a wonderful acknowledgment of the processes, follow-up, and results of Pacific Harbor Line's safety culture. I'm extremely honored by the efforts of members of Brotherhood of Locomotive Engineers & Trainmen Division 214 and PHL management to achieve this incident/accident rate." — Pacific Harbor Lines President Otis L. Cliatt II.

Housing starts have a lot to do with changes in STCC 24 carloads. The present outlook for housing starts would seem to suggest a cautionary approach to future STCC 24 vols. Start with the NAHB Housing Index. Homebuilder sentiment in October totally collapsed down to 38 when consensus was looking for 43. The driving force pushing homebuilder sentiment lower is the sudden increase in 30-Year mortgage rates, up a whopping 111 percent year-over-year.

All of this has led to a complete collapse in mortgage applications for new homes, down 37 percent year-over-year, the lowest reading since September 2010. As a result, the monthly supply of new homes on the market recently rose to 10.4 months, levels historically consistent with recession and the highest level since the Great Financial Crisis in 2008.

In fact, because residential investment represents about a third of the economy, a slow-down here is a dependable early warning sign of a recession, especially when measured in changes in the rate of housing starts. The mortgage rate increase has thus decreased the affordability of new housing or housing upgrades and increased the supply of new homes. Which points to a decrease in new-builds and thus a decrease in center-beams of lumber and panel.

Moreover, housing is a long-duration asset funded by debt. So are new cars and significant home improvements including appliances. Thus the red flags in housing also throw up red flags for other consumer durables — and the raw materials to make them. Think steel, aluminum, plastics, and glass.

Finally, recessions can drive up the unemployment rate, further crimping households' discretionary spending. And that's why I think shifting patterns in STCC 24 carloads can be a leading economic indicator of future railroad volumes.

The STCC 24 downturn has already started. The volume changes over time are one clue. Forest products carloads in the 2021 fourth quarter were up four percent year-over-year. YOY changes have dropped sequentially every quarter since then and are now down 12 percent YOY over the past four weeks and down 13 percent in Week 40 (end October 8).

The Pacific Harbor Line (PHL), a unit of the Anacostia Rail Holdings Company, has won the ASLRRA's 2022 President's Safety Award. PHL has been in the thick of the west coast container port congestion, providing rail transportation and train dispatching for the ports of Long Beach and Los Angeles.

In addition to switching approximately 40,000 freight cars annually, PHL serves nine on-dock intermodal terminals and dispatches more than 30 stack trains a day on a 24/7 basis to its Class I partners BNSF and Union Pacific. Winning this prestigious award took strong leadership, a dedicated operating crew, and being laser-focused on the company's motto: "Focus on Safety: one move at a time, one shift at a time, and one day at a time."

The ASLRRA's award is based on FRA safety data and recognizes the safety records of those railroads that have posted the lowest FRA-reportable employee injury frequency rate. PHL earned the award for railroads working between 250,000-500,000 annual person-hours in the association's Pacific Region.

That emphasis on safety helped PHL earn a previous safety honor in 2021 when the railroad received the ASLRRA's Jake Award, named for the late Lowell S. "Jake" Jacobson, former president and general manager of the Copper Basin Railway. Jake Awards go to those lines that achieve an employee injury frequency rate that is better than the average for Class II and Class III railroads in the preceding year. Kudos to the entire Pacific Harbor Lines team.

Canadian National moved more western Canadian grain — 3.23 metric tonnes — in October than it ever has in a single month. This exceeds the previous record set in October 2020 by over 50,000 metric tonnes and follows an all-time record set for weekly movement earlier in the month.

Chief Marketing Office Doug MacDonald notes that "supply chain cooperation and collaboration" played key role. "When the end-to-end supply chain runs well, we can move grain to ports and return railcars quickly to elevators to get more grain on the move." Recall it wasn't that long ago the Vancouver Ports took weekends off, hammering car cycle times and causing unnecessary hiccups in grain flows.

The timing is certainly right. MacDonald said on the Q3 earnings call just last week that had seen "a rapid uptick in Canadian grain starting in September when the new harvest started coming off the field. We were quick to deploy resources" and won beaucoup points with customers. CN expects to see strong grain volumes going forward and "we're confident that we have the resources to move this year's crop over the crop year, and we expect to see continued strong Canadian grain volumes well into next year."