RAILROAD WEEK IN REVIEW
January 20, 2023

"In recognition of ASLRRA members' increasing focus on investing in environmentally friendly operations, the Association introduces its new Environmental Award, which will recognize any ASLRRA-member railroad that has enacted innovative and successful environmental initiatives in the small railroad industry. The award was developed by ASLRRA's Environmental Committee." — ASLRRA Views & News, January 11

Genesee & Wyoming Canada's Huron Central Railway will receive a total of C$21 million for infrastructure rehabilitation from the governments of Canada and Ontario, which announced their investment January 10. The 173-mile short line in Northern Ontario will contribute C$10.5 million to the work." — Railway Age, January 10

"Rail labor additions remain resilient as Big 4 U.S. rails grew employee counts +0.4% M/M in December (+4.2% Y/Y). By rail, aggressive-hiring NS led the way at +1.6% M/M, while eastern competitor CSX and UNP both grew +0.4%, and Berkshire-owned BNSF (-0.3%) was the first rail to shrink its labor force M/M since July." — Bascome Majors, Susquehanna Financial Group, January 18

Independent rail analyst (and friend of 30+years) Tony Hatch hied himself to the Jan 4 National Rail Construction & Contractors conference in Boca Raton. He writes:

The top highlight from the NRC might have been this exchange between myself and FRA Administrator Amit Bose on the subject of autonomous trucks and the railroads.

Hatch: Thank you, Mr. Administrator, for coming out to speak to us. It's great to have you do that. I'm going to ask you sort of a tough one. How do you address the belief that is widely if not universally held in the financial community that the Department of Transportation is actively supporting, even subsidizing, autonomous trucking while at the same time doing what they can to suppress technological advancement in the rail side, whether it be autonomy or inspections? Again, we don't have all the facts, but I'd love for you to comment on this universally held belief in the financial community.

Bose: First off, I think the rail industry needs to provide good service to the customers it has in order to draw future customers, and it also starts with having workers that can sustain the needs of the railroad industry and treating them properly so they remain and so the railroad industry can recruit the workers that it needs.

Now, with autonomous trucking, specifically. Number 1, in terms of the federal government, we're giving $66 billion to improve the rail industry at an unprecedented level that wasn't there just two years ago, before this administration.

Number 2 on autonomous trucking, we at the FRA encourage technological innovations in the railroad industry. I mentioned the Technology Transportation Center, for example. In short, there are many tools available at the FRA, as well as in the industry, to advance railroading.

In terms of autonomous trucking, I'll just put it this way: from what I know about it, it's not my area, I'm not an expert on it, but there's a ways to go on autonomous trucking and autonomous vehicles in general. What I can commit to you in terms of FRA, we will work with the FRA to promote it as a source of transporting goods and people and make it a robust part of our transportation network, our transportation system.

The administration and the Department of Transportation recognize that the benefits of rail transportation and what it provides is an essential part of getting to that 2050 zero-emission target that I mentioned. [*end Bose quote and Tony's note]*

Neither Tony nor I think Bose answered the question — is the DOT promoting trucks with no drivers on the public interstate system while weighing in against advances in crew-sizes, train operations, inspections, and maintenance on the privately-owned railroads with no public access. Until that question is answered, the financial community — and the rest of us — will remain in the dark as to whose side the FRA is really on.

Stifel Nicolaus, the St. Louis-based investment bank, is lowering its construction materials outlook based on recent conversations with industry contacts. That said, the firm remains positive on construction materials such as aggregates and ready-mixed concrete, given the outsized exposure to public infrastructure spending.

Survey respondents expect three percent-plus volume growth over the next 12 months, up slightly from last quarter's three percent gain but below the seven percent jump toward the end of 2021. Growth outlook remains strongest in the South and West, most likely population migration driven.

The Stifel note, however, suggests that lower residential construction levels nation-wide could dampen total carload opportunities. But, as noted above, it looks like aggregates may get their day in the sun after all. They are in the "non-metallic minerals" group in the weekly AAR carload reports.

Though no Class I specifically breaks out "construction materials" in their quarterly reports to analysts, a quick scan down the AAR commodity carload list will highlight the likely suspects — metals, sand/gravel, stone/clay/glass, lumber/wood, and even iron and steel scrap, which is used as the main charge in electric arc steel furnaces.

Moreover, this is the very commodity group where local and regional railroads can excel mainly because of their way of staying close to customers. The challenge will be keeping the Class Is on their toes for what is largely a low-rated business with limited per-car margins. But run a lot of it right and you've got it made.

Continuing my commentary about railroad performance and stock charts, a few interesting observations popped out of my screen of six railroad stock charts, one of which is for Berkshire Hathaway as a proxy for BNSF. It is clear that CP has been the star performer due largely to Keith Creel's PSR leadership. Running a close second has been Canadian National. Both are further above the 200 day moving average than any other publicly traded Class I railroad.

Among the US rails, CSX is right at the 200, acting as support at this time. Norfolk Southern is a few points above it, also with its 200 day acting as support. Berkshire looks very much the same. The laggard is Union Pacific, which has seen its 200 day moving average acting as resistance as far back as August, and has not been above it since April.

It would appear that some of the unfortunate press UP has received over the past few months has not helped the share price. Once again, the institutional investors — who make up 90 percent of all stock exchange trades — must be seeing trends of which they disapprove. Events like having the STB weigh in on the Foster Farms grain train debacle could not have helped.

My personal 20-year history of working with UP on shortline matters argues that UP has the tools and discipline to get share prices above the 200 in short order, at which point the 200 becomes support and we can all breathe a lot easier.