

RAILROAD WEEK IN REVIEW

June 30, 2023

“In 2022, grain accounted for 5.7% of carloads, 10.2% of tonnage, and 8.5% of gross revenue for U.S. Class I railroads. Corn, soybeans, and wheat together account for close to 90% of U.S. grain carloads, with corn generally accounting for much more than soybeans or wheat.” — AAR Rail Trends Indicators, June 12, 2023

“Grain demand is seemingly getting worse with much focus on supply amid weather concerns (this is the 4th driest June since the Miracle Year of 1960, for example). It is demand that will impact rail volumes, especially with Brazil’s corn and soybeans) competing successfully with the US farmer....” — Tony Hatch, June 26

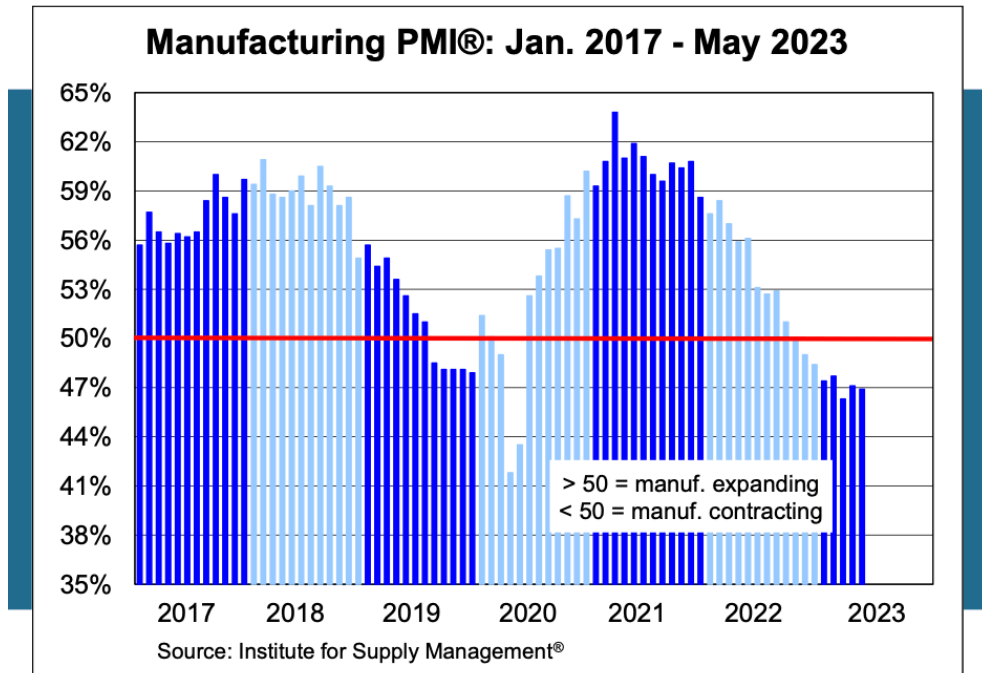
“U.S. new home sales surged in May, with new residential sales up 12.2%. It was the third straight month of gains amid a serious shortage of homes for sale in the resale market. Meanwhile, the April home price index (reported in June) rose 0.9%, even with mortgage rates near all-time highs.” — Real Vision, June 27

“Canadian Pacific Kansas City (CPKC), CSX, and Genesee & Wyoming (G&W) today announced they have reached agreements that will create a new direct CPKC-CSX interchange connection in Alabama. CPKC and CSX would each acquire or operate portions of the Meridian & Bigbee Railroad, a G&W-owned railway in Mississippi and Alabama, to establish a new freight corridor for shippers that connects Mexico, Texas, and the U.S. Southeast.” — CSX Presser, June 28

AAR YTD Week 24 North American commodity carloads ex-coal, auto, and intermodal, were essentially unchanged at 5.8 million units. Total revenue units dropped four percent to 16.2 million because intermodal was off ten percent. Within the merchandise carload group, grain was up less than two points, metallic ores and metals gained three percent, and non-metallic minerals (mainly aggregates) crept up four percent. Forest products (wood and paper) slipped four percent.

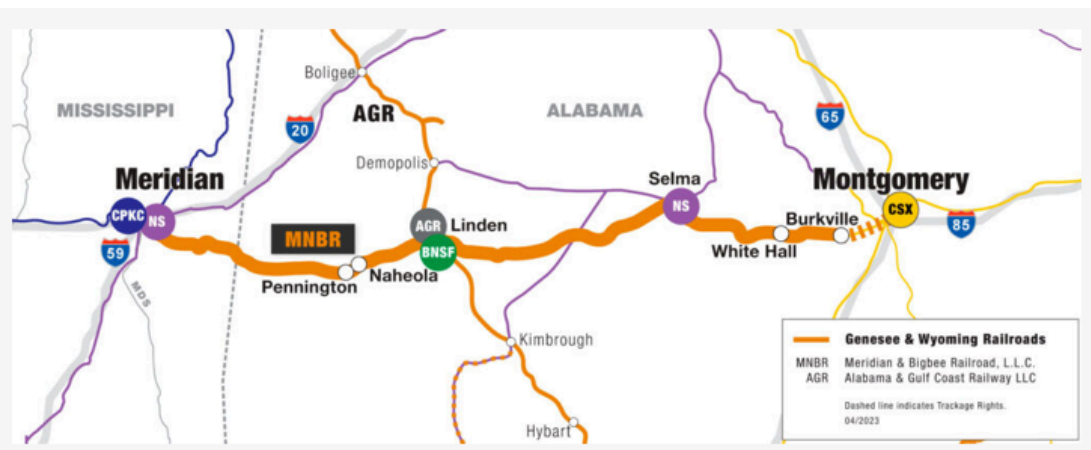
There’s a reason volumes are off. Consumers — 70 percent of the economy — are really cutting back on the stuff they buy, from toys to washing machines, and spending more on doing things, from trips to the shore to ocean cruises. Housing starts are up, too. And as the supply of existing homes for sale dries up (who wants to swap a sub-four percent mortgage for one starting with a six?) millennials and Gen Xers starting homes will have to buy new. And that means less money for the consumer discretionary sector — the very stuff railroads depend on.

Just to show you I'm not making this stuff up, here's the AAR manufacturing report covering the same periods.



And now look at the fit between AAR carloads ex-intermodal and the PMI. What you see here is the precise reason I include these economic indicators in Week in Review: if you're running a transportation business you need to know how much of what is moving and when. And, just as important, you need to know if or when that traffic volume is likely to change and how that's likely to affect your operation.

The big news of the week is that CPKC and CSX are giving NS a run for its money on the Meridian Speedway joint venture with KCS. As you can see, NS comes into Meridian from Birmingham, where it connects with its main lines to/from Atlanta and Chattanooga.



Now come CSX and CPKC with a deal that hits KCS at Meridian from the east via Montgomery where CSX has its lines to/from Atlanta and Florida. GWR's Meridian & Bigbee does the honors, having begun its life linking the L&N on its east end with the IC and GM&O on the west end. Fast forward and those fallen flags are now CSX and KCS (CPKC) respectively.

GWR bought the original M&B west from Myrtlewood, Alabama, to Meridian in 2005 and eventually leased the ex-L&N east to Burkeville from CSX, gaining trackage rights into Montgomery in the bargain. The present transaction has CPKC running the original M&B to Myrtlewood and CSX running over the leased track from there to Burkeville and on its own tracks into Montgomery.

Keith Creel and Joe Hinrichs are delighted. Says Creel, the hook-up “provides CPKC a new, efficient corridor connecting expanding markets in Mexico, Texas and the U.S. Southeast, extending our reach and converting more freight traffic to rail and off our highways.” Hinrichs seconds the motion: “This new service is a demonstration of the CSX commitment to creating product offerings for shippers that help them leverage the efficiency and sustainability advantages of rail to drive growth.”

G&W comes out nicely ahead, too. According to CEO Jack Hellmann, “At the same time, we have enhanced several agreements related to other G&W short line railroads and are collaborating on the expansion of our service to Alberta and the Alberta Industrial Heartland in conjunction with CPKC.” Nice.

No comment from NS.

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