RAILROAD WEEK IN REVIEW
July 7, 2023

"Railroads have specific accounting methods tailored to their unique characteristics. For example,Maintenance of Way. Railroads incur substantial costs for maintaining and repairing their tracks, switches, and related infrastructure. These expenses are categorized as 'Maintenance of Way' costs and are tracked separately from regular operating expenses to provide insights into the condition and maintenance needs of the railroad's infrastructure." — Chat GPT

"Farmer sentiment recovers in June, after sharply declining in May. This was largely driven by farmer optimism about future conditions. While the percentage of farmers expecting their financial condition to decline over next year is still above the percentage expecting an improvement, the gap has narrowed from 21% to 12%, suggesting an incrementally less cautious outlook." — Matt Elkott, TD Cowen, July 5

"Railroads have at their disposal the ultimate public relations tool: The steam locomotive. Nothing can attract people to railroads like a living, breathing mainline steam locomotive. They're a nostalgic novelty in the era of Tesla, artificial intelligence, and virtual reality." — Bill Stephens, Trains magazine NewsWire, July 6

Second Quarter revenue unit numbers (Week 26 through July 1) are in; we'll get the formal results and comments during the earnings calls at the end of the month. Starting out with UP, Q2 revenue units are down two percent at 4.0 million. Intermodal was off five percent and represents 43 percent of total volumes. Coal/coke, now down to ten percent of loadings — roughly half what it once was — increased 15 percent.

Merchandise carloads — everything but auto, intermodal and coal — comprised 41 percent of total loadings and slipped a mere point. The aggregates group (which includes frac sand) was the biggest single increase, up 11 percent, whereas double-digit losses in key commodities like grain, both forest products STCCs, and waste products were prevalent.

The forest products question is particularly interesting, I think, given the lumber origin and destination markets that Union Pacific serves. Now, without specific data at hand, I can only speculate on what's going on. There could be several reasons for the decline in carloads of lumber on the railroad. Here are a few potential factors:

Supply Chain Shifts: Changes in supply chain dynamics, such as sourcing lumber from different regions or utilizing alternative transportation modes, can impact the volume of lumber transported by rail. If lumber suppliers or customers are choosing different transportation options, it could result in a decline in lumber carloads on UP.

Regional Factors: Regional economic conditions and industry-specific factors may also play a role. For example, if there are slowdowns or shifts in lumber production or logging activities in the regions served by the Union Pacific, it could contribute to a decrease in lumber carloads.

Competition: The truckers or even the barge operators might be offering competitive advantages over rail transport for lumber shipments. Factors like cost, flexibility, or speed may make these alternative modes more attractive to lumber producers and customers.

Seasonal Variations: The demand for lumber can be seasonal, with fluctuations in construction and building activities throughout the year. Seasonal variations might lead to temporary declines in lumber carloads during certain periods.

It's important to note that specific factors impacting the decline in lumber carloads on any railroad would require more information about OD pairs and the STCCs in question. And that's where market intelligence comes in. On every call, your goal is to come away with a market trend or development you'd never heard of before. And then turn that information into carloads.

So to have 11 out of 18 UP merch carload categories the red is hardly encouraging, but the overall picture is less dire. Forest products were off 15 percent, but represent only three percent of total units. Chemicals (the usual STCC 28s plus STCC 29 and crude oil) increased on 15 percent more crude oil whereas the 28s were essentially flat, essentially offsetting the forest products drop. All-in, merch loadings were off only a mere point and I look forward to getting the details from Kenny Rocker July 26.

Bill Stephens' *Trains* piece on railroad history deserves special mention as the theme is how "the reality is that the railroad industry's image has taken a beating over the past two years." And now our Elected Representatives are using "railroad safety" as a cudgel to win votes and generate campaign contributions. Stephens has the antidote.

Stephens continues, "Railroads have at their disposal the ultimate public relations tool: The steam locomotive. Nothing can attract people to railroads like a living, breathing mainline steam locomotive. They're a nostalgic novelty in the era of Tesla, artificial intelligence, and virtual reality." He cites the popularity of the UP 4014 and N&W 611 excursions as examples.

But there are others, mainly on short lines that have been running steam almost daily for years: Just in my Pennsylvania-New Jersey-Delaware back yard we have Strasburg, Black River & Western, New Hope & Ivyland, and Everett Railroad. In Florida, the restoration of the Florida East Coast 148 (oil-fired 4-6-2, Alco 1920) brought them out in droves. (FWIW, I fired and ran the 148 in NJ in the 1970s.)

This being the case, the Class Is ought to start thinking about passenger rail as a PR asset and consider ways they might support it. Passenger trains can be a community asset, as shown by the tourist line above.

People arrive by the busload to the Reading & Northern to ride the behind steam to Jim Thorpe where the economy is significantly juiced by the steam train crowds.

The Class Is today maintain fleets of immaculate passenger cars to show off the railroad to potential customers. It was Mike Haverty who used the open platform on a Santa Fe business car to show JB Hunt what the railroad could do. It worked, and JBH is a BNSF customer to this day. Today, CSX chief Joe Hinrichs is out on his business train showing off the railroad to customers and prospects. Business is up, so something has to be working.

Trains like the *20th Century Limite*d, the *Super Chief*, the *Humming Bir*d and countless others represented their owners in a very positive light. Deals were made over Martinis on the *Mechants' Limited* that might otherwise might never been closed.

The demand is there. The state of Virginia is backing more Amtrak trains on NS, for example. Imagine bringing back the Crescent run by NS with sleepers and a diner for the Washington-Atlanta business trade. Or having dinner on the CSX ex-RF&P line between Alexandria and Richmond. Talk about best feet forward!