

# RAILROAD WEEK IN REVIEW

September 1, 2023

**Norfolk Southern suffered an early morning service outage** Monday that severely disrupted train operations. I first heard about it from a Pennsylvania short line that appeared to have lost all communications with NS, even as they had regularly scheduled crews en route to the usual NS interchange points. There was nothing on the NS website and the usual breathless reporters were mum.

The only “official” notice I found was this screen-grab from Conrail Shared Assets in Philadelphia (right):

Evidently NS was able to resolve the matter in relatively short order. My shortline contact assured me that his crews were home and cars were pretty much where they should have been by early evening.

Then on Tuesday morning NS issued a press release saying in part that a “hardware-related technology outage impacted rail operations. At this time, we have no indication that this was a cybersecurity incident.” Systems had been fully restored by 1900, but “we expect the impact to our operations to last at least a couple of weeks.”

Makes one wonder how the railroads managed to function before computers took over. You had conductors with switch lists in their pockets and as those cars were placed and pulled their hand-written lists were updated.

At the end of the run the conductor’s lists were transferred to a master list by the yardmaster, who in turn forwarded his lists to the nearest data collection agency and its army of clerks. Yes, it was time-consuming and awkward, but it worked. Is it time to go back to the paper switch lists?

Good morning,

Please be advised that the NS is currently experiencing intermittent network outages. Their IT department is aware of the issue and is currently working towards resolution. No timeline or comprehensive list of impacted applications has been provided at this time; however we have confirmed that the below applications are currently down.

- TYES
- SAP
- ERC
- Pacesetter (customer-facing portal)
- NS Citrix
- and some functionality in the "Horse Screen"

We will provide updates as NS communicates to us.

Regards,  
Conrail IT Team

I've mentioned before the close correlation between the Russell 2000 index of small companies (\$IWM) and railroad traffic. The table is Bascome Majors' summary of Week 34 AAR railroad carloads and intermodal containers. Below that, in black, is a screen-grab of a chart comparing the \$IWM and an index of railroad share prices.

Rail Originations August-26-2023	% of Volume	2022 Q3	2022 Q4	Annual 2022	2023 Q1	2023 Q2	2023 Q3-TD	Annual 2023-TD	Last 4 Weeks	Week 34
<b>NORTH AMERICAN RAILS</b>										
<b>Intermodal</b>										
Trailers	2%	(27%)	(29%)	(23%)	(29%)	(19%)	(22%)	(24%)	(27%)	(26%)
Containers	47%	(1%)	(1%)	(2%)	(8%)	(10%)	(8%)	(9%)	(6%)	(8%)
<b>Total Intermodal</b>	<b>49%</b>	<b>(2%)</b>	<b>(3%)</b>	<b>(4%)</b>	<b>(10%)</b>	<b>(10%)</b>	<b>(9%)</b>	<b>(9%)</b>	<b>(7%)</b>	<b>(9%)</b>
<b>Bulk</b>										
Coal	11%	3%	0%	3%	0%	0%	(2%)	0%	(3%)	(8%)
Grain	5%	2%	(1%)	(4%)	4%	(3%)	(10%)	(1%)	(11%)	(14%)
<b>Merchandise</b>										
Chemicals	7%	0%	(6%)	0%	(3%)	(2%)	0%	(2%)	0%	4%
Forest, Lumber & Paper	2%	(1%)	(6%)	(4%)	(3%)	(7%)	(11%)	(6%)	(10%)	(8%)
Motor Vehicles	4%	7%	7%	2%	10%	15%	14%	13%	13%	11%
Petroleum Products	3%	(1%)	3%	(0%)	6%	(0%)	1%	3%	4%	7%
Stone, Sand & Gravel	4%	6%	6%	7%	10%	6%	4%	7%	1%	1%
Metals & Ores	5%	(7%)	(5%)	(4%)	4%	(1%)	1%	1%	(2%)	(12%)
All Other Merchandise	10%	(3%)	0%	(3%)	3%	2%	1%	2%	1%	(3%)
<b>Total Merchandise</b>	<b>35%</b>	<b>(0%)</b>	<b>(1%)</b>	<b>(0%)</b>	<b>3%</b>	<b>1%</b>	<b>2%</b>	<b>2%</b>	<b>1%</b>	<b>(1%)</b>
<b>Total Traffic</b>	<b>100%</b>	<b>(1%)</b>	<b>(2%)</b>	<b>(2%)</b>	<b>(4%)</b>	<b>(5%)</b>	<b>(5%)</b>	<b>(4%)</b>	<b>(4%)</b>	<b>(6%)</b>

Total railroad revenue units have been in a downward trend for the last two quarters and year-to-date (bottom line). Intermodal continues to lead the way down, though metals and grain are softening of late.

You can see how Class I share prices peaked in early August, slid to just below the 50-day moving average, and have since flattened. You can see clearly how railroad share price performance (candles) tracks the Russell 2000 (light blue) and why I use the ISM in conjunction with industrial production trends to get a sense where the carload trends are headed.



**The final shoe has dropped** on the Pan Am Southern operation. Recall that Pan Am Southern is the joint venture that Pan Am Railways and Norfolk Southern launched in 2009 to provide NS with direct access to New England via the former Boston & Maine main line between Mechanicville, N.Y., and Ayer, Mass. The CSX acquisition of PAR complicated matters.

Because of the now joint CSX-NS ownership of the line across Massachusetts it was agreed that a “neutral operator” could best represent the interests of both Class Is without devaluing the established commercial arrangements. To this end Genesee & Wyoming created the Berkshire & Eastern short line. Today the B&E begins operations.

PAS also includes the former Pan Am Rail island operations in Connecticut, serving Plainfield and Waterbury. In addition to a handful of customers there is the Naugatuck Valley Railroad (“Naugy”), a new shortline heading north from Waterbury and developing its own customer base. Doing so has been a challenge because Waterbury is at the far end of the already light density branch where train frequencies have been irregular at best.

The Naugy’s first customer was a significant construction and demolition debris transfer facility generating significant volumes of material moving in leased equipment to a CSX-served landfill about 200 miles away.



It’s a truism of the shortline business that customers beget customers, so, thanks in part to the C&D business, the Naugy is fielding inquiries from new and existing manufacturing and service businesses. And, given GWRR’s track record for creating customers, one would like to think the atmosphere for more shortline business is vastly improved for the Naugy.

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