RAILROAD WEEK IN REVIEW
September 8, 2023

"Stocks sold off on Tuesday after the Labor Day weekend. Economic data was lagging but showed July Factory Orders down -2.1% vs. -2.3% expected, while final July Durable Goods Orders fell -5.2% vs. -5.4% the prior month. A mixed open gave way to more selling as another spike in crude oil prices stirred inflation fears." — Market Edge, September 5

Third quarter revenue unit volumes are nothing to write home about. In August alone units were a percent below where they had been in January and five points below the August 2022 tally. Intermodal volumes continue to take the biggest hit, though the merchandise sectors were mostly lower. Of particular note, home builders dropped on fears that higher rates and home prices would impact the housing market. The iShares US Home Construction ETF (ITB) sank -4.66%.

True to form, railroad investors looking to lighten their loads outnumbered their counterparts with a more upbeat view. Here's the $DWCRAI index of railroad shares for August. And, as one might expect, operating statistics were not much improved.

Terminal dwell, system trains speeds, and operating ratios are all treading water. In fact, the rail group will see its first year of operating ratio deterioration in the past 11 years. Margin declines will hit Norfolk hardest.

The merch carload sector has been in a funk for years due to a combination of factors from the soft supply/ demand economy and truckers beating each other up on price to score what loads they could.

CSX President and CEO Joe Hinrichs was first out of the box for the fall conference season this week. The occasion was TD Cowen's 16th Annual Global Transportation Conference in Boston. As one would expect, his remarks were generally upbeat as Cowen host Jason Seidl led Hinrichs through a series of thoughtful questions regarding the railroad today, the recent traffic and operating history, and the general outlook for this year and beyond.

It's safe to say 2023 to-date hasn't really set any records and that volumes have been pretty ho-hum. Week 35 was worse than the last four weeks and year-to-date, lagging the 2022 annual change by four points.

RAIL TRAFFIC DETAIL BY RAILROAD – EASTERN CLASS I RAILS

Eastern Rails Detail	% of	2022		Annual		2023		Annual	Last 4	
September-02-2023	Volume	Q3	Q4	2022	Q1	Q2	Q3-TD	2023-TD	Weeks	Week 35
CSX (CSX)										
Intermodal										
Trailers	1%	(25%)	(24%)	(22%)	(24%)	(15%)	(13%)	(19%)	(17%)	(13%)
Containers	43%	3%	(3%)	0%	(10%)	(9%)	(8%)	(9%)	(7%)	(13%)
Total Intermodal	**44%**	**2%**	**(4%)**	**(0%)**	**(10%)**	**(10%)**	**(8%)**	**(9%)**	**(8%)**	**(13%)**
Bulk										
Coal	11%	(1%)	11%	(1%)	18%	5%	9%	11%	11%	4%
Grain	2%	21%	1%	4%	16%	0%	(25%)	(1%)	(30%)	(16%)
Merchandise										
Chemicals	9%	0%	(10%)	(2%)	(5%)	(4%)	(5%)	(5%)	(8%)	(4%)
Forest Products	4%	(4%)	(6%)	(3%)	1%	(5%)	(12%)	(4%)	(14%)	(14%)
Motor Vehicles	6%	13%	15%	6%	8%	23%	19%	16%	16%	26%
Petroleum Products	2%	(6%)	0%	(9%)	3%	1%	4%	3%	9%	30%
Stone, Sand & Gravel	5%	1%	4%	5%	20%	8%	5%	11%	5%	5%
All Other Merchandise	17%	(4%)	(5%)	(3%)	2%	2%	(1%)	1%	(0%)	1%
Total Merchandise	**42%**	**(0%)**	**(3%)**	**(1%)**	**2%**	**3%**	**0%**	**2%**	**(0%)**	**3%**
Total Traffic	**100%**	**1%**	**(2%)**	**(1%)**	**(2%)**	**(3%)**	**(3%)**	**(3%)**	**(3%)**	**(5%)**

Petroleum and automotive were the best Week 35 performers, but they are hardly core manifest carload commodities (less than five percent between them). On the other hand, manifest stalwarts such as grain, chemicals, aggregates, forest products, and metals make up a quarter of the CSX traffic base.

Still, Hinrichs presented an upbeat pictures saying CSX expects to see 2023 RTMs increasing slightly over the 2022 numbers, domestic intermodal increasing at a faster pace than what they expect for international boxes. Happily, they expect the recently announced CPKC connection over the M&B to open up Mexico to the CSX markets in the southeast.

Hinrichs also sees CSX new business opportunities. He cites some 500 new industrial locations that run the gamut of the CSX merchandise commodity carload sector. Though many sites are in the southeast, the northern reaches of the railroad will benefit as well. State support in terms of everything from manpower to electricity has been encouraging.

Furloughs, such as the minor one recently announced by UNP, are unlikely in the near term. CSX intends to use natural attrition and hiring pauses as first measure instead.

As for changing the culture, Hinrichs says, “We’re a service business and we have to be concentrating on providing better service to our customers. Fact is, this industry hasn’t grown because we’ve pushed customers away by not serving them well. And it’s the employees that create that service level. We need to focus on the fundamentals so our employees can be motivated and inspired to provide that level of service.”

I have to thank Jason for his ability to draw out Hinrichs on what it will take to serve the customers well, engage the employees in the process, and realize the full potential of CSX. Hinrichs concludes, “There’s nothing in the principles of scheduled railroading that says you should optimize your manpower for the low point in the cycle. …. We all acknowledge that we left a lot of revenue on the table by not having manpower, and we’ll not be making that mistake again.” A breath of fresh air.

Parting Shot. When I write *Week in Review*, it is from the viewpoint of one who owns a railroad and is charged with growing the business base and doing it profitably. Because the state of the economy pretty much determines transportation demand, owners need to have a sense of where the economy is and where is likely to be in six months to a year.

Only then can the owners determine where their customers’ strengths and weaknesses lie and what assets they need to supply to meet customers’ transportation demands. This is why I write WIR as a conversation, inviting (and getting) feedback that can help all of us do what ought to be the first priority of any business: to create customers — and help them in turn create their own customers. Your comments are invited.