

RAILROAD WEEK IN REVIEW

October (Friday the) 13th, 2023

“Union Pacific recently removed a full day of transit time for customers shipping on Eagle and Falcon Premium. Eagle Premium delivers seamless interchange between Mexico, Chicago, the West Coast, and eastern U.S. points, including Detroit, Michigan and Louisville, Kentucky. Falcon Premium, developed jointly with Canadian National (CN) and Grupo Mexico (GMXT), serves all CN points within Canada and Detroit, Michigan.” — Jim Vena, UP CEO, September 12

“We are the only railway that directly connects Canadian and U.S. steel mills with the growing Mexico manufacturing corridors. Our rail network is enhanced by strong partnerships with transload operators to provide safe, reliable and efficient dock-to-dock delivery.” — CPKC Factbook, Forest & Industrial Products

Union Pacific is unique in that it is the only railroad whose shares are anywhere close to their 200-day moving average. This tells me two things. One, the shares started farther above the 200 with respect to their peers when the August melt-down began. Two, shares have recovered more quickly than those of the other Class I railroads.



I think this is a vital fact when reviewing UP performance and outlook. Eighty percent of UP shares are held by institutions — mutual or pension funds, insurance companies,

investment firms, private foundations, endowments, or other large entities that manage funds on behalf of others. These institutions are paid to increase their holdings value.

Moreover, according to a 2021 study made by Morgan Stanley (reuters.com), institutional investors account for around 90 percent of the daily trading volume on the Russell 3000 index, which is the broadest major U.S. stock index. I should add that the Russell Index represents many small-cap companies that don't meet the larger indices' thresholds but are a better measure of the railroads' customer base.

That is why I maintain that railroad share price performance is a leading indicator of not only the railroads' traffic outlook but also the general economic outlook. Keep in mind that the Dow Theory posits that the market is in an upward trend if one of its averages (e.g., industrials or transportation) advances above a previous important high and is accompanied or followed by a similar advance in another average.

Here you can see that The Dow Jones Transport Index (candlesticks) behaves very much the same as Russell 2000 Index (jagged blue line). Note the October upticks in both.



UP third quarter 2023 revenue units were down just one percent whereas Q2 volumes were off three percent. That turnaround is reflected in the October share price recovery per the share price chart above as weekly carloads reversed their downward trend the last week of August.

As you might expect, consumer durables figure prominently in the railroad commodity lists. Share price leaders for the last six months are automotive, homebuilding, and household durables in general. Finished goods are helping intermodal and automotive while raw materials figure in everything from homebuilding to refrigerators.

Here I turn to the UP carload report for Week 39 year-to-date ending September 30. Total revenue units came to six million, of which intermodal was 43 percent of that total; the year-over-year drop was held to four points. Coal, ten percent of total units, was off three percent. Automotive — finished vehicles and parts — saved the day, up 12 percent.

Manifest carloads excluding auto and coke represented 41 percent of UP's total units and were down only one percent vs. this time last year. Ag products slipped five points on an 11 percent drop in grain loadings; STCC 20 packaged goods helped the food/kindred group to a one-point gain.

The Industrial Products group was up two percent thanks largely to a ten percent jump in aggregates. Finished metal products increased a point yet ferrous scrap and ores dropped several points each. Forest products took a 14 percent drop: STCC 24 off 17 percent; the 26s slid 11 percent.

I still think the economy is on the mend. The recent upward trend in railroad share prices reflects the improving ISM numbers. As I wrote above, rising railroad share prices tend to be a leading indicator of increased industrial activity. Let's see what UP's Chief Marketing guru Kenny Rocker says on the October 19 third quarter earnings call.

The railroad third quarter earnings call season starts with UP at 8:45 the 19th, followed by CSX the same day at 4:30. We get CN at 10:30 on the 24th and wrap up the 25th with NS and CP KC at 8:45 and 4:30 respectively. BNSF will report with Berkshire, probably November 4, still TBA.

The general railroad analyst expectation is for unexciting results — “management teams are setting low expectations into this earnings season, giving analysts cover for what could finally approach capitulating estimate cuts into November and early 2024,” says Susquehanna Financials' Branscome Majors.

Perhaps. We seem to be reaching the sine-wave bottom of the business cycle which leads inevitability to a stronger economy. I'm hoping we'll see glimmers of that turnaround on the upcoming earnings calls.

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