RAILROAD WEEK IN REVIEW

January 19, 2024

“Total U.S. rail carloads were up 2.0 percent in the fourth quarter of 2023 over the fourth quarter of 2022, while U.S. intermodal was up 5.5 percent over the same period. That means Q4 was clearly the best quarter of 2023 for U.S. rail volumes on a year-over-year basis. It appears that intense rail efforts to improve service quality are paying off. Railroads are hopeful that gains in the fourth quarter will carry over into the first quarter of 2024 and beyond.” AAR Senior Vice President John T. Gray, January 3

“Watco’s South Kansas &Oklahoma Railroad will be the site of Bartlett’s new soybean crush plant in Montgomery County, KS, This will be one of the country’s leading processors, crushing 45 million bushels to make meal and refined oil and generating more than 65 million gallons of feedstock for renewable transportation fuels. The SKOL will provide access to abundant raw materials and a network of local highways and Class I carriers.” — Rick Webb, Watco Executive Chairman

Manifest carloads for North America spiked nicely in the closing weeks of 2023. Just look at the Week 52 commodity lines showing double-digit increases — chemicals, ag less grain, forest products (mostly STCC 24) — and the big negatives are in places the non-Class Is as a group are not big players. One has to assume aggregates (“non-metallic minerals”) dropped on seasonally slow construction spends. “Other” includes empties moving back to origin roads, hardly a shortline concern.

North American Rail Traffic

Week 52, 2023 – Ended December 30, 2023

	This Week		Year-To-Date		
	Cars	vs 2022	Cumulative	Avg/wk[1]	vs 2022
Total Carloads	**270,807**	**5.0%**	**17,297,137**	**332,637**	**1.6%**
Chemicals	44,162	24.3%	2,364,975	45,480	1.0%
Coal	59,583	3.5%	3,849,468	74,028	0.6%
Farm Products excl. Grain, and Food	22,843	16.3%	1,320,444	25,393	3.0%
Forest Products	12,780	11.7%	775,311	14,910	-5.0%
Grain	26,304	-2.3%	1,616,821	31,093	-2.7%
Metallic Ores and Metals	37,836	4.7%	2,206,789	42,438	2.8%
Motor Vehicles and Parts	12,991	-17.1%	1,268,744	24,399	12.3%
Nonmetallic Minerals	26,951	-1.2%	2,217,871	42,651	2.0%
Petroleum and Petroleum Products	19,832	7.0%	1,074,650	20,666	4.4%
Other	7,525	-19.0%	602,064	11,578	-1.7%
Total Intermodal Units	**254,475**	**3.8%**	**16,808,382**	**323,238**	**-5.7%**
Total Traffic	**525,282**	**4.4%**	**34,105,519**	**655,875**	**-2.1%**

[1] Average per week figures may not sum to totals as a result of independent rounding.

The AAR Jan 3 presser advises that North American rail volume on ten reporting U.S., Canadian, and Mexican railroads for the week ending December 30, 2023, increased 5.0 percent compared with the same week last year. Although the 2023 full-year North American rail volume was down 2.1 percent compared with 2022, these most recent results are an encouraging and welcome sign.

Seeing the manifest carload sector improving this way has to be very good news for the non-Class I railroad sector. Just about every week I find another example of short lines winning new customer carloads and expanding volumes for existing customers.

You read here last week about such developments on short lines feeding Norfolk Southern and BNSF. This week I have a good news/bad news story about a new Norfolk Southern shortline customer. I don't want to name names for all the obvious reasons, but suffice to say it's for a customer the short line has been courting for any years.

It’s a relatively short haul and a highly truck-competitive move. It is in leased equipment, which means turn-times are going to be important to keeping this customer. The short line runs a train a day in each direction over this line and it’s only 30 miles to the NS interchange. Piece of cake.

NS makes it complicated. They do one interchange a day with the shortline and that’s a westbound way freight but the customer is 150 miles to the east. NS takes the empties 100 miles west to the nearest class yard, turns them, and sends them back east to the customer. Dwell time on NS averages about 20 hours, according to their most recent EP770 report to the STB.

Next the cars have to run 200 miles east to the class yard that makes up the local serving the short line’s customer, roughly 25 miles east of there. So figure a day from empty release to interchange pull, a day to the western class yard, a day there, a day to the eastern class yard, a day there, and another day to placement. That’s six days on the railroad between the OD pairs on the empty return.

Just for grins let’s say the lease rate on that car is $450 a month or $15 a day. If the round trip is 12 days in transit, that’s $180 in lease cost. And if the car turns twice a month carrying 100 tons per trip, we get a 90 cents per ton lease cost in addition to the railroad freight tariff. One has to ask how long the customer can afford this.

Let’s say the shortline can make eastbound and westbound blocks at the interchange. Now, rather than running trains for the convenience of the operating department — one

local a day to the short line — they start running for the convenience of the customer, cutting the car-lease cost per move in half. I dare say that dramatically increases the odds of keeping this customer and perhaps even increasing loads per year. But as long as the NS operating department isn't walking the CEO's talk, it's not going to happen.

Matt Elkott, railroad equipment analyst for TD Cowen, writes in his January 8 *Sector Preview*, "Generally, results should be solid, though guidance, on the other hand, could include a greater-than-usual degree of conservatism in order to account for a wide range of scenarios reflecting uncertainty around the economy, the health of the consumer, interest rates, commodity prices, policy, the election cycle, and China." (I'm surprised he didn't mention the weather…)

In his January 17 *Railway Equipment Survey* he notes, "The survey results are a mild negative for railcar demand, perhaps more so for manufacturing than leasing." Tellingly, he adds, "If rail traffic remains weak and service continues to improve, the railcar supply tightness could be alleviated by further weakening in demand, not higher railcar production.

Though Cowen has never said so specifically, I'm interpreting "shipper" in this context as one who leases or buys cars to ship a specific commodity stream — ADM buys cars and puts ADMX marks on them — or uses generic cars — GATX, UTLX — as needed.

Either way, it is instructive to note that as "service continues to improve, the railcar supply tightness could be alleviated by further weakening in demand." The comment about "railcar supply tightness" reinforces what I've been saying in WIR for the past 20 years: if cars turn faster you need fewer of them to support a given amount of tonnage coming out of the plant.

Better yet, improved cycle times could encourage customers to put more tonnage on the rails thereby increasing railcar demand. The added benefit of better turn-times is lowering the per-ton lease cost to the customer. See "just for grins," above.

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