RAILROAD WEEK IN REVIEW

February 9, 2024

"We have found the TCWR to be both helpful and reliable, allowing us to accomplish our goals of providing better business to both our customers and our producer partners in the region." — Twin Cities & Western Railroad Customer Testimonial

"In 2024, a newer fleet and lower projected farmer income are expected to weigh on industry demand as AGCO expects retail sales to be down ~10% from 2023. Parts and precision ag sales are both expected to grow mid-single digits, helping to offset lower industry volume… AGCO finished 2023 with record full year net sales of $14.4 billion which was up nearly 14% from last year." — Stifel Feb 6 note, AGCO earnings call.

"The trick to history isn't finding the correct answers but formulating better questions." — Deborah Harkness, A Discovery of Witches

Short lines and regional railroads are particularly adept at first mile/last mile service. Where moves run into trouble is in Class I hands. Once a car leaves a short line/regional interchange it goes to a serving yard to go over the hump and be assembled into the next outbound heading in the general direction of the ultimate destination.

The same thing happens in reverse when a regional railroad is receiving a car. It comes into the serving yard on a road train, where it gets humped into the local that will deliver the car to the short line. Who knows how long the dwell is likely to be there?

Let's suppose we could create moves that a minimize the Class I involvement and take full advantage of the regional railroads' first mile/last mile capabilities. I think it would work particularly well in relatively short-haul lanes where there is only one Class I serving train on each end, and one core train in the middle.

The originating railroad puts the short-haul car on the head of its outbound block. On arrival at the receiving yard that car is taken directly to the departure yard for the outbound core train named in the trip plan. When the core train arrives at its distant node, the shortline car goes directly to the departure yard where're they're building the local that will serve the destination short line. Probably saves at least two days transit time and increases car-miles per day, a Class I Key Performance Indicator.

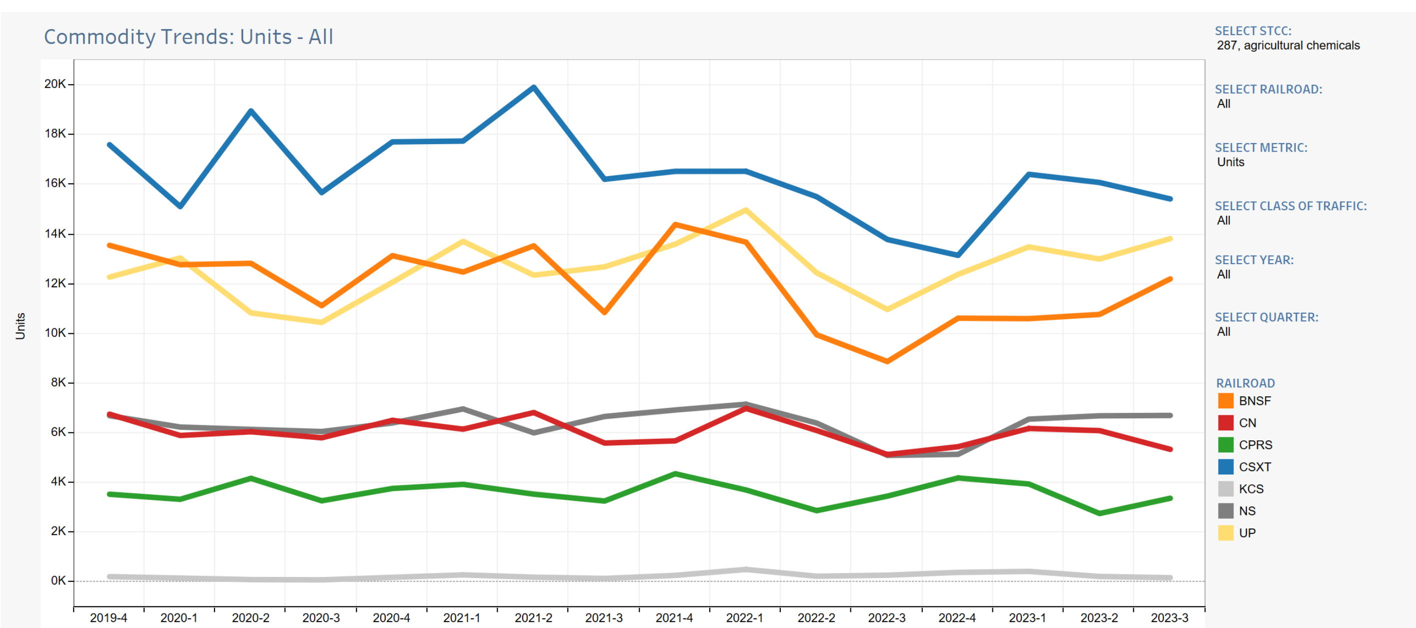
Shorter-haul moves have been tried before but extant Class I marketing and operating practices were not at all accommodative. I'm thinking of examples where cars took anything but the most direct route between the shortline interchange and the distant node. Or the market manager priced the move to make budget RPU numbers, not to move the freight. Hardly a recipe for success in wooing and winning customers.

Farm Equipment maker AGCO was somewhat encouraging on their Q4 earnings call, according to a note from Stifel. “Looking to 2024, AGCO issued better-than-expected guidance and targets total sales of $13.6 billion… Parts and precision ag sales are both expected to grow mid-single digits helping to offset lower industry volume as well.”

By way of background, AGCO was formed in 1990 through a management buyout of Deutz-Allis’ North American operations, with its predecessor company, Allis-Chalmers, dating back to 1909. AGCO is headquartered in Duluth, Georgia and is in the same market space as Deere, making the firm a serious player in the ag business.

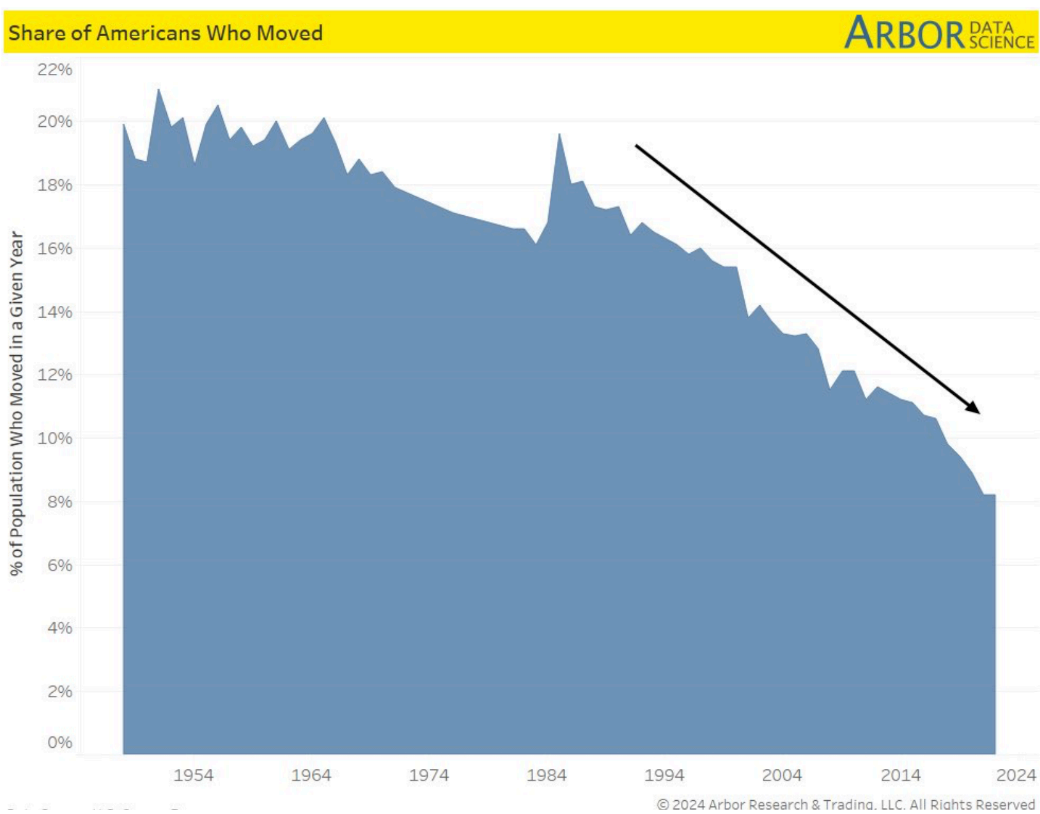
I take the AGCO remarks as a plus for railroads, and “precision agriculture” is the reason. It’s a system for helping farmers increase crop yields and reduce waste by using technology to gain insights into soil health, moisture levels, nutrient distribution, and crop conditions. From these isights can come more informed decisions about irrigation, fertilization, pest management, and harvesting.

All of which means you need specific products to put on the ground in the right places and right amounts and you need the equipment to get it on the ground. That’s where railroads come in. Ag chems, STCC 28 7xx, continues to be an important commodity, especially now that “precision agriculture” allows farmers to apply more or less of it according to the nutrient demands of the crop in question.



This chart from RSI Rail Impact shows STCC 28 7xx tonnage trends by railroad. CSX is the leading fertilizer carrier, followed by UP and BNSF. It's an important commodity for non-Class Is because it's largely a carload commodity delivered in smallish amounts to vendors not on the Class I main lines. Now's the time to have a chat with your ferts guys about what they're going to be putting on the ground and how they're going to do it.

I don't get it. Schwab's Liz Ann Sonders reports, "Per data from @uscensusbureau, as of 2022 (latest available), 8.2% of Americans moved/relocated ... the lowest percentage on record in last 74 years (% peaked in 1951 at 21%)." And yet the XHB homebuilders sectors ETF is hitting record highs. AAR STCC 24 year-over-year carloads were off six percent through December. Mortgages rates are the drag. Why pay seven percent for a new mortgage today when you're living in a house where you're paying half that?



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