

RAILROAD WEEK IN REVIEW

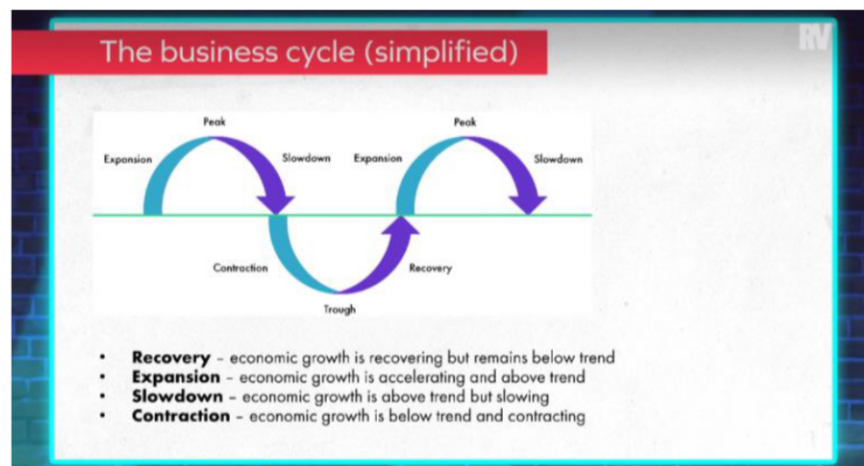
March 15, 2024

“With the help of federal grants, short lines have revitalized significant sections of the rail network, allowing for greater service volume, elimination of bottlenecks, and reduction of congestion as well as harnessing the measurable environmental benefits of moving freight by rail. Perhaps most important, every dollar invested in improving rail infrastructure is a dollar invested in rail safety.” — Chuck Baker, ASLRRA President, “Department of Transportation Discretionary Grants: Stakeholder Perspectives,” U.S. House Committee on Transportation and Infrastructure, March 7

“The Manufacturing PMI® registered 49.1 percent in January, up two percentage points from the seasonally adjusted 47.1 percent recorded in December. The overall economy continued in expansion for the 45th month after one month of contraction in April 2020.” — January 2024 Manufacturing ISM Report

Freight transportation demand is entirely cyclical. One doesn't order a boxcar until one has something to move. And whether a customer orders that car depends on where he is in the business cycle. Therefore, as a railroad operator, you need to know where your customers stand in the business cycle. And the more you can anticipate where your customer is going to be in his business cycle some months ahead, the more successful you will be in planning your railroad operations.

Here's how the business cycle works:

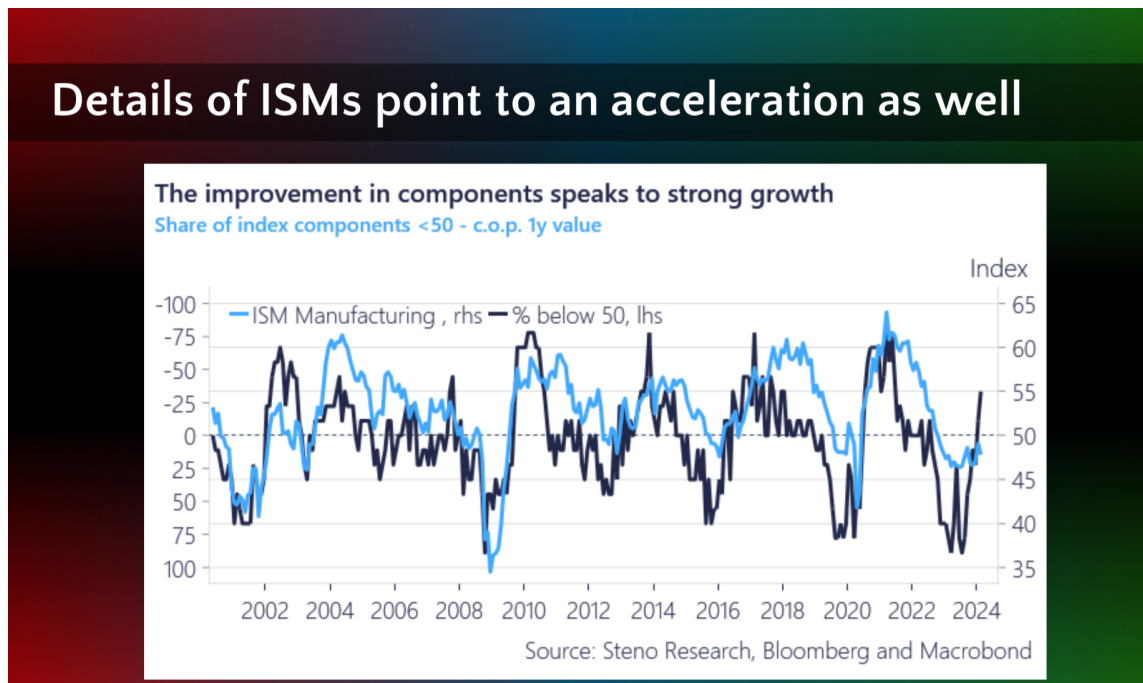


The chart is pretty self-explanatory. The question now becomes one of how do you know where you are in the business cycle. Easy. Look at the [ISM manufacturing index](#) and the

S&P 500 charts. As you can see, they rise and fall together in cycles of roughly three to five years.



So where are we now? From the next chart it would appear that manufacturing is starting to turn around and loadings are likely to increase. The purple line is the one to watch.



The rule is that a reading of 50 or more tells us that manufacturing activity is increasing. The dips below 50 occur, roughly 4 years apart, as do the peaks. This being the case, we should expect manufacturing to increase at least until 2026 before the turndown returns.

Now go back to the business cycle chart on the first page. We have come out of the trough in 2024 and are now heading into recovery. We can expect a peak in 2026, at which point we start the slowdown and contraction until 2028 or so, at which time the cycle begins anew.

To sanity-check these findings and suggestions, you may wish to look at your own traffic patterns over the past four to 12 years. Look particularly at your cyclical hard goods, such as coiled steel, construction materials, and chemicals — the ones that tend to drive the ISM ups and downs. My feeling, based on the above, is if you can position your railroad to take an increase in the cyclical commodities during business cycle upturns you will be able to increase carloads, revenues, and margins all at once.

As you can see from this chart, courtesy of Bascome Majors, Susquehanna Financial Group, Annual 2024-TD cyclical volumes are up nicely from 2023 Q2, roughly the bottom of the trough in the ISM chart above.

TOTAL N.A. CLASS I RAIL TRAFFIC SUMMARY – ORIGINATED CARLOADINGS (Y/Y % CHG. EXCL. % OF VOLUME)

Rail Originations	% of	2023				Annual	2024	Annual	Last 4	
March-02-2024	Volume	Q1	Q2	Q3	Q4	2023	Q1-TD	2024-TD	Weeks	Week 9
NORTH AMERICAN RAILS										
Intermodal										
Trailers	2%	(29%)	(19%)	(22%)	(21%)	(23%)	(26%)	(26%)	(26%)	(25%)
Containers	49%	(8%)	(10%)	(6%)	5%	(5%)	8%	8%	11%	13%
Total Intermodal	51%	(9%)	(10%)	(7%)	4%	(6%)	7%	7%	10%	11%
Bulk										
Coal	10%	2%	0%	(2%)	2%	0%	(13%)	(13%)	(12%)	(20%)
Grain	5%	5%	(3%)	(9%)	(5%)	(3%)	(7%)	(7%)	5%	(4%)
Merchandise										
Chemicals	7%	(3%)	(2%)	2%	9%	1%	3%	3%	4%	1%
Forest, Lumber & Paper	2%	(3%)	(7%)	(9%)	(1%)	(5%)	(2%)	(2%)	0%	(1%)
Motor Vehicles	3%	10%	15%	14%	9%	12%	0%	0%	9%	11%
Petroleum Products	3%	7%	(0%)	2%	9%	4%	4%	4%	7%	8%
Stone, Sand & Gravel	3%	11%	6%	2%	(3%)	4%	(13%)	(13%)	(8%)	(13%)
Metals & Ores	5%	4%	(1%)	0%	4%	2%	0%	0%	(1%)	(2%)
All Other Merchandise	9%	3%	2%	1%	(2%)	1%	(2%)	(2%)	1%	1%
Total Merchandise	34%	3%	1%	2%	3%	2%	(1%)	(1%)	2%	0%
Total Traffic	100%	(3%)	(5%)	(3%)	3%	(2%)	1%	1%	4%	3%

In sum, positioning your railroad for traffic ups and downs using the business cycle will definitely put you ahead. Please call or write if you wish to discuss further.

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