RAILROAD WEEK IN REVIEW
March 22, 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

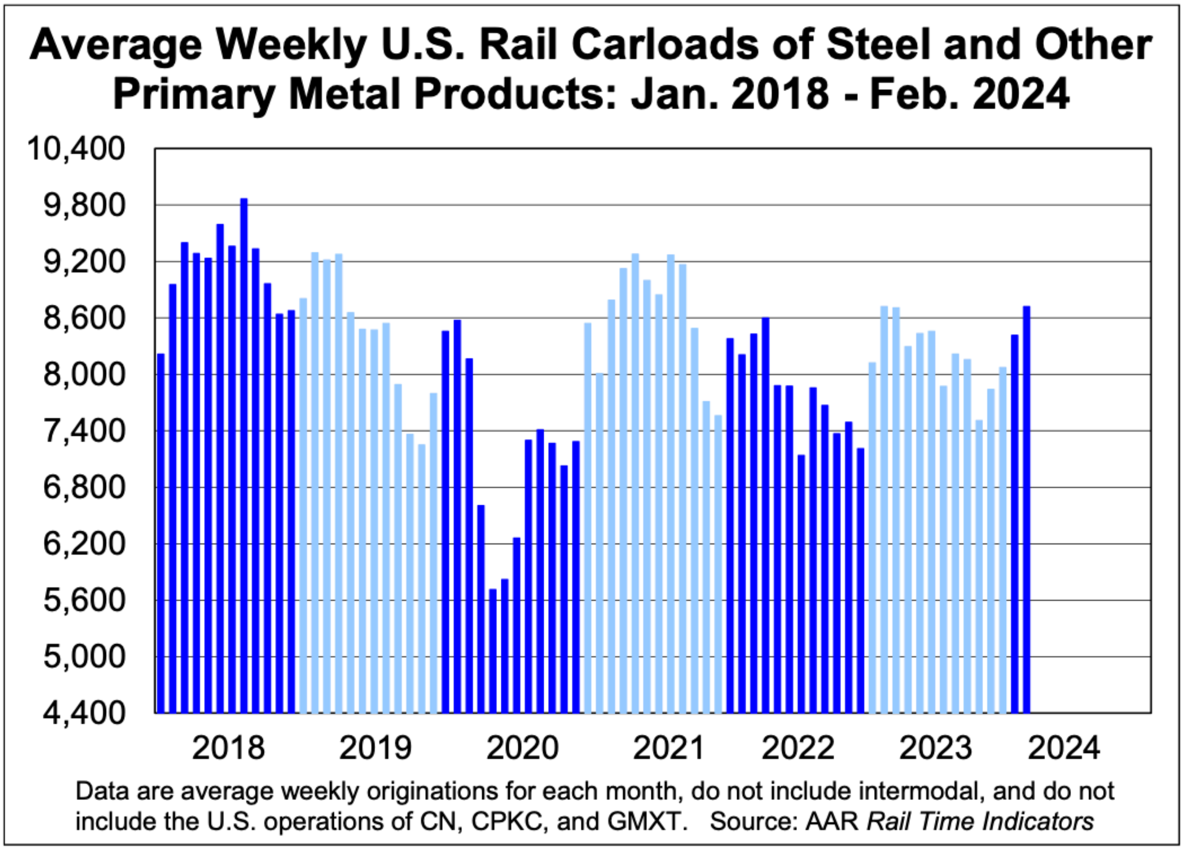
All the stock market money has been concentrated in [the most expensive tech shares like NVidia]. We're beginning to see a rotation from that more inflationary world back into the commodity sector and away from the tech sector. Can you just take ten percent out of the QQQ tech ETF and stick it into the XME minings and metals ETF?'— Julian Brigden, Real Vision, Mar 15

One way to gauge congestion on your connecting Class I railroads is to look at changes in cars on line. At NS for example, cars on line for the week ending March 16 came to 167,791 units. This measure counts intermodal units as carloads, but as most intermodal units are double-stacked, I'm cutting intermodal units in half to get a carload equivalent.

NS reported total 137,009 revenue units moved for that week, or 98,043 carload equivalents after the above intermodal adjustment. With 167,791 cars on line, we can conclude that NS had 1.7 cars on line for every revenue load (167,791/98,043) — cars taking up track space for every revenue-generating carload equivalent and doing nothing.

Cars occupying track space doing nothing clog up yards. That affects velocity between OD pairs while it decreases car-miles per day, trailing tons per available horsepower, on-time arrivals and departures, as well as many other Key Performance Indicators.

If you see interchange times or volumes changing for the worse, you may wish to look at your Class I's cars per carload. If it's creeping up, you can bet that something is slowing the system down someplace. On the other hand, if you see cars per carload going down, it could be an indication the railroad is moving faster, strengthening your position as a reliable transportation services provider that can enhance the supply chain your customers are selling to their customers.



The investor shift into cyclicals like the XME or XLI and away from tech shares could bode well for materials. Take steel. The AAR says U.S. carloads of primary metal products averaged 8,720 per week in February 2024, the most since February 2023; U.S. carloads of iron and steel scrap averaged 4,501 per week in February 2024, the most since August 2013; North American carloads of metallic ores averaged 16,333 per week in February 2024, the fewest since March 2022; North American carloads of lumber and wood products averaged 5,975 per week in February 2024, the most in eight months;

Where is it? Look at Nucor. The steel mill segment's earnings are expected to increase in the first quarter of 2024 due to higher average selling prices and volumes, particularly in sheet products. “We expect earnings in the raw materials segment in the first quarter of 2024 to be comparable to the fourth quarter of 2023 as improved performance of our DRI facilities is offset by lower margins at our scrap processing operations,” says Nucor.

So here you have Nucor, the largest steel company in the United States, looking for the means to increase its competitive advantage in the industry. One way was to invest in a direct iron ore reduction facility. This process involves converting natural gas and iron ore pellets into high-quality DRI (direct-reduced iron), which is the raw material used by Nucor for sheet steel, e.g. Not only does this process employ the latest technologies to reduce emissions, but it also provides a low-cost environment and operational flexibility. That's good news for the railroads.

Back to the XME. Share prices are rallying back to their March highs after having sold off a bit last week. ETFs for oil & gas exploration (XOP), Industrials (XLI), Energy (XLE), Materials (XLB), and Homebuilders (XHB) are all trending higher. Tech ETFs like the Nasdaq 100 Trust (QQQ), semiconductors (SOXX), and the broader tech sector (XLK) are all selling off.

So if traders are seeing more value in cyclicals/industrials than they are in tech, it's a very encouraging sign for companies in cyclical sectors from metals to aggregates to plastics to lumber and paper.

The XLI industrials ETF (candlestick) has caught up to the QQQ (orange) and continues to gain while the latter is flattening out.

Are you ready to bring on more industrial commodity carloads? If not, why not?

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