RAILROAD WEEK IN REVIEW

May 17, 2024

"Norfolk Southern has the same fundamental strategic objectives as every rail: Reliable, on-time service; The highest growth possible, The resources to deliver service in both weak and strong markets; Having no shortage of trained people or equipment in peak times when markets cycle upwards." — Ancora Alternatives LLC, "The Case for Leadership, Safety & Strategy Changes at Norfolk Southern," February, 2024

The table below is from the Railinc non-Class I carload tally on page 4 of the April *Railway Age*. I've reworked it to focus on carloads as such, making intermodal a separate category though it represents nine percent of total non-Class I revenue units.

Commodity	Feb 24	Feb 23	Change	AAR % Change*	SL/AAR Spread
Chemicals	56,631	50,777	11.5%	5.1%	6.4%
Coal	25,184	19,778	27.3%	-11.7%	39.0%
Crushed Stone, Sand and Gravel	22,832	23,487	-2.8%	-10.1%	7.3%
Food and Kindred Products	13,492	11,330	19.1%	-9.4%	28.5%
Grain	29,684	25,217	17.7%	6.3%	11.4%
Grain Mill Products	8,401	7,893	6.4%	4.8%	1.6%
Lumber and Wood Products	9,842	8,185	20.2%	1.7%	18.5%
Metallic Ores	2,556	3,244	-21.2%	12.9%	-34.1%
Metals and Products***	19,877	18,516	7.4%	-0.8%	8.2%
motor vehicles & equipment	10,345	8,761	18.1%	12.3%	5.8%
Nonmetallic Minerals**	2,340	2,373	-1.4%	-12.7%	11.3%
Petroleum Products	2,544	1,994	27.6%	4.9%	22.7%
Pulp, Paper, and Allied Products	15,017	13,615	10.3%	-1.4%	11.7%
Stone, Clay and Glass Products	13,116	11,904	10.2%	7.3%	2.9%
Waste and Scrap Materials	11,421	11,019	3.6%	8.2%	-4.6%
Other	61,062	64,628	-5.5%	13.5%	-19.0%
Total Manifest Carloads	243,282	218,093	11.5%	-1.3%	12.8%
Trailers/Containers	34,187	34,951	-2.2%	10.9%	-13.1%
Total Revenue Units	277,469	253,044	9.7%	4.9%	4.8%
* AAR YTD 3/2					
** AAR incl aggregates					
*** AAR incl met ores					

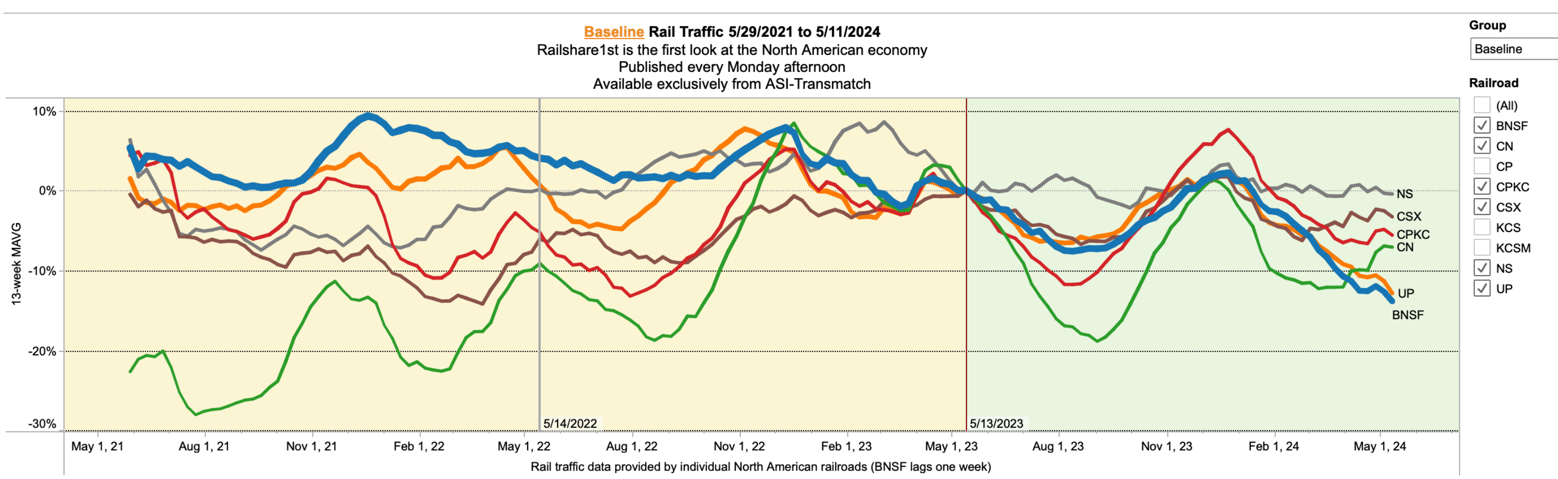
The Change column captures the Feb 2024 year-over-year change in total volume for each commodity for the non-Class I railroads. The AAR percent change column shows the AAR US Class I change for Feb 2024.The point here is the Non-Class I roads are building carload traffic in most commodities whereas the Class Is are not.

And even though intermodal is a strong suit for the Class Is, the smaller roads have sufficient strength in the carload commodities to have double the success rate of the Class Is in attracting additional carload commodities. I think part of the reason is the Class Is have too much railroad for the asset base they’re willing to commit to carload.

I bring this up at this time because the Ancora Alternatives proxy fight for NS faults the railroad for “carrying higher resources/costs (i.e., manpower, locomotives and cars) at all times with the objective of picking up extra market share.” The implication is more market share exists but the present asset base isn’t capturing it.

As I’ve said before, NS has more asset base than they need to run the the traffic they could have — even if they used the asset base to better effect. In short, if you won’t use the asset base to win the traffic that’s out there, then get out of the way so somebody else can, and get rid of the assets you no longer use to good effect. This was a clear warning shot from Ancora. Shaw and company must take it seriously.

The present downturn in the railroad freight business isn’t helping. CN has been the only clear uptrend; BNSF has gotten hammered. NS has done surprisingly well, hovering right at zero for the three-year period shown here.



As for what’s going on, the most recent Oliver Wyman *Freight Rail Performance Report* confirms that revenue per RTM improved only at UP while expense per RTM increased for all except BNSF and UP. Operating ratios have shown little improvement over the past two years, thanks to no revenue growth and no significant operating income improvement.

The trucks aren't doing much better. Scott Group's *Friday Freight* every week carries tales of trucks cutting rates just to get the loads. The OEMs aren't seeing a lot of orders and Berkshire's Pilot brand truck stops saw revenues off 14 percent year-over-year "from a decline in volumes from wholesale fuel and fuel marketing businesses."

The railroads aren't doing much to add to any competitive advantage they have left. Susquehanna's Bascome Majors writes that system train speeds and yard dwell don't show much improvement against prior years' trends. Total revenue units 2024 to date are up only two percent as intermodal gains mask the no-change picture of bulk and intermodal.

To end on a positive note, my good friend and sometime host James Bonner is swapping his post as President of Anacostia's New York & Atlantic for a similar title at the much bigger and very different New York, Susquehanna & Western. He will be succeeded at the NYA by Marlon Taylor, who has been on the property since 2016. Bonner is leaving NYA in its "best-ever financial condition," says Anacostia CFO Bruce Lieberman.

To which Taylor adds "Over the past eight years with NYA, I have enjoyed developing solutions that help our customers thrive, while serving our diverse community and workforce and managing our safe, efficient, and green operations. Our success has been achieved with the close cooperation of our host, the Long Island Railroad. It is the busiest commuter railroad in North America, and we are committed to maintaining our great relationship with this premier agency."

Can't argue with that.