RAILROAD WEEK IN REVIEW

June 7, 2024

"I applaud the NS. We've created an environment where it's OK to be the squeaky wheel. Finding the solution is mutually beneficial, Watco short lines have been able to gain more volume as customers have become more comfortable with transit times and interchange reliability. More reliable interchange also has reduced dwell, improved car cycle times, and enabled Watco to use its crews more efficiently." —Zachary Boehme, Watco SVP rail sales

"Watco's Dock Tool offers a dashboard providing at a glance all railcar activity from showing the number of inbound railcars to the total number of railcars currently placed. Using this tool, customers can view waybills and order in, release, or reject railcars. There is also an option to request railcars to be spotted and switched." — Watco Dispatch newsletter, June 2024

What was previously known as Customer Service was renamed Customer Logistics & Support (CL&S) and is now incorporated as an arm of our Marketing Department. Our CL&S team is proving to be a great asset and resource to our customers, as they have hit the ground running, with new and exciting logistic management options." — Jeb Stotter, President & CEO, North Shore Railroad Company

"The manufacturing sector, a major driver of the U.S. economy, contracted for the second consecutive month in May and for the 18th month out of the past 19. The ISM survey showed that manufacturers are struggling with high interest rates and weak consumer spending, among other things." — Barron's, June 5

Second quarter Norfolk Southern merchandise carloads including automotive have increased three percent to 357,607 from 346,711 since March 1, according to NS and as reported by Bill Stephens on the *Trains* newswire. Short lines and regional railroads have posted five percent volume growth in the same period. Forty non-Class I connections rang up a *nine* percent increase.

All told, NS connects with some 250 short lines, adding more than 20,000 additional miles of track to the Norfolk Southern network. Roughly 40 percent of its carload traffic originates or terminates on a connecting non-Class I railroad and their car-counts are at the highest level since August 2021.

"The program is proof that carload volume can grow when railroads provide good service and communication, says Stefan Loeb, NS vice president of business development and first- and final-mile markets. “If you can put visibility, data, and communication around interchanges to improve effectiveness and performance, you’re going to grow with your shortline partners,” says Loeb, who joined NS last year after serving many years as chief commercial officer at shortline holding company Watco.

NS short lines come in all shapes and sizes, from the 10-mile Great Walton Railroad in central Georgia to the not-so-short Florida East Coast, an intermodal powerhouse running 351 miles Miami-Jacksonville. Also included on the NS short line roster are the Illinois Harbor Belt and the Belt Railway of Chicago, both terminal railroads serving the multiple Class Is converging on Chicago.

NS isn’t saying who’s in that group of 40 short lines with the nine percent growth, but with the FEC, IHB, and BRC in the NS shortline community, one can hazard a guess who’s in that nine-percent club. Still, if non-Class I connections account for 40 percent of merchandise carloads, we’re looking at 1.3 million units in CY2023. That’s worth about $900 million based on NS reported merchandise carload revenues in CY2023.

The Stephens *Trains* piece says NS carloads are increasing at at three percent a year and the short lines are up five percent, so it appears NS sees a greater rate of upward change from its non-Class I partners than it does from its own internal organic growth. One must recall that most short lines and regionals began life as Class I branch lines deemed unprofitable by their owners. Maybe NS needs to create more short lines to grow the traffic base on its light-density or low-margin branches.

So kudos to NS for grabbing shortline marketing guru Stefan Loeb and empowering him to make paying more attention to short lines and regionals truly worthwhile. They’re approaching the challenge of fluid and dependable interchange two ways, writes Bill Stephens:

“The first step: Establish a way to provide visibility and feedback on interchanges. NS and participating short lines use a spreadsheet to track interchange performance. On one side, NS gives its view on what service was performed the previous day. On the other, the short line lets NS know how the interchange went. If the views don’t match, it gets flagged for attention and resolution.”

“The second step: Establish real-time communication channels so the railroads can quickly solve service problems. NS and the participating railroads collaborate using *Microsoft Teams*, which permits chats between short lines and the First and Final Markets group.” And I call that progress. Let’s see if it really works long term.

A number of short line operators have created their own customer service devices without waiting for the Class Is. Watco, for example, offers its iPhone-based "Dock Tool." Created by Watco's IT group in 2018, *Dock's* purpose is to keep Watco and its customers on the same page when it came to car management.

Does it work? Here's Chris Senecaut, Transload Terminal Manager in Pittsburg, Kansas. He has used this online tool on both his iPhone and laptop to track and release railcars using the South Kansas & Oklahoma Railroad (SKOL). Prior to using *Dock*, he contacted Watco's Customer Service team for these requests.

"It was easy to learn and *Dock* saves my team a ton of time. We no longer have to send emails to Customer Service and wait for a response. Now, everything we need to do is right at our fingertips." Senior Vice President of Service Assurance Carla Ewing agrees with Senecaut's assessment of the tool. Says she, "This tool has made life easier for customers. *Dock* provides all the necessary information you need when you need it." And now you can see the environment Norfolk's Stefan Loeb is coming from.

Transport shares are trending down, a classic leading indicator of a slowing economy. This chart of the $IYT US Transportation ETF, which includes shares of railroads, truckers, and airlines, not to mention Uber, shows a decreasing demand for moving freight and people.

Stuff and people stop moving because there's no need to go from where you are to someplace else. Transportation is demand-driven, so when stuff stops moving revenues and net incomes dry up. And assets can be parked.

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