

# RAILROAD WEEK IN REVIEW

June 14, 2024

*“Eric and I try to make sure we’re capturing all of the demand that’s out there. When you have an economy like this, you can’t moan and be groan. You’ve got to go out there and create new products to improve your lot in life and that’s what we’re doing... Higher truck rates help us compete for boxcar business and a stronger service product helps us do so.” — Kenny Rocker, UP EVP Marketing & Sales, May 21*

*“Since 2020, CPKC has retrofitted three locomotives with hydrogen fuel cells to test within its network. One was able to haul 25,000 tons of freight through a mountainous territory, indicating that the hydrogen locomotive has the same propulsion power as diesel locomotives in terms of hauling freight in uphill conditions” — WSJ, May 21*

*“The data analysis revealed that there were slightly slower response times and slightly reduced brake cylinder pressures as the train length increased, with leakage levels further contributing to the differences. When subsequent brake applications were made without waiting for the brake pipe pressure at the rear of the train to fully recover, the likelihood of unintended brake releases were higher with longer trains..” — FRA Very Long Train Study, May 2024*

**Kenny Rocker** talked about “demonstrating what’s possible” in his remarks at Wolfe's 17th Annual Global Transportation & Industrials Conference in NY last month.


## New Service Products & Network Reach Driving Growth

### UP Introducing New Services Supporting Market Growth

- **Falcon & Eagle Premium** – Industry’s fastest route between Chicago and Mexico; proven truck competitive service between U.S. & Canada
- **Mexico-Southeast Service** – Connecting growing industrial markets in Mexico with areas of high demand in the Southeastern U.S.
- **Faster Domestic Intermodal Service LA to Chicago** – Truck competitive Intermodal solution; cuts LA to Chicago transit time to three days

### Expanding Network Reach in Growth Markets


- **UP Transload Network** – Expanding transload capacity in growth markets; provides customer solutions with 25 Union Pacific sites plus external vendors across the U.S.



### Second Quarter AAR Volumes\* (Year Over Year Change)

Bulk	-10%
Industrial	-1%
Premium	4%
Total	-1%

\*Through Week 20



These are the two most critical matters: delivering the service you sold our customers, and leveraging the franchise and improved service product to win new business. It's something I've been harping on forever and it's gratifying to see these results.

The new service offerings bespeak an aggressive pursuit of new customers and a renewed vigor in winning more carloads from present customers. It's the only way to build volumes, especially in a soft manufacturing economy, as Rocker noted above.

As one would expect, UP's "premium" business — auto and intermodal — is up nicely. Through May, YTD merchandise units (the AAR puts auto here, up five percent) are off just three percent, yet showing mid-single-digit gains in aggregates, grain mill products, chemicals, and metallic ores. Coal is the big bulk downer on slide 5 — YTD down 25 percent year-over-year through May. But that's not a big surprise.

Still, the AAR reports that in May 2024, 12 of the 20 carload commodity categories tracked by the AAR each month saw carload gains compared with May 2023. These included petroleum and petroleum products (roughly half crude oil, half refinery products), industrial chemicals, and grain.

Because transportation is an on-demand service, manifest carloads are subject to manufacturing and purchasing trends. I've said in previous WIRs that the business cycle, the ISM/manufacturing curve, and railroad share prices can help predict near-term (six to nine months) carload volume changes.

Fact is, stuff and people stop moving because there's no need to go from where you are to someplace else. As noted often on these pages, since transportation is demand-driven, when stuff stops moving revenues and net incomes dry up. And assets can be parked.

**BNSF is making three key leadership changes** in its Transportation, Service Design and Marketing teams, effective September 1, 2024. Matt Garland has been promoted to senior vice president, Transportation and Service Design; Katie Hower has been named vice president, Service Design and Network Strategy; and Farah Lawler has been named vice president, Domestic Intermodal Marketing.

Garland clearly knows the railroad. He is moving up from VP Transportation to assume oversight for all BNSF transportation operations, service design and network strategies, developing and implementing service plans that meet the current and future needs of BNSF customers and markets.

Hower becomes VP Service Design and Network Strategy, responsible for BNSF's business unit operations in addition to the company's capital planning, operations

research, and intermodal innovation. Katie knows the customers, having most recently served as VP Domestic Intermodal Marketing. Her resume includes marketing and sales roles in consumer, industrial, and agricultural products. She has also covered the energy group (crude oil and refinery products, split 50-50, plus drilling supplies).

Lawler brings a similar collection of customer-oriented experience, having held down slots managing the automotive, intermodal, industrial, ag, and energy product lines, rising to the AVP level. It's a perfect fit for Lawler and Hower. As part of this transition, BNSF's Crude Oil and Coal teams will join the new Agriculture and Energy Products Business Unit.

**CSX shares continued** their three-month downtrend this week, now below the 20, 50, 100, and 200 day moving averages. This MarketEdge technical summary says it all: "The current technical condition for CSX is weak and remains susceptible to lower prices. The stock has underperformed the market when compared to the S&P 500 over the last 50 trading days. The stock is trading below a falling 50-day moving average which confirms the weak technical condition of CSX."



Morningstar sees CSX Fair Value at the present \$35 and writes that "CSX can rekindle OR improvement longer term as it refines its application of PSR, adjusts to the onset of cost inflation (partly via healthy pricing power), and pursues volume growth via truck-to-rail conversions."

I should hope so. CEO Jim Hinrichs brings a breath of fresh air from outside the inward-looking railroad culture, coming from the outward-looking auto industry where you design products according to what your customers tell you they want.

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