

RAILROAD WEEK IN REVIEW

June 21, 2024

“The ISM manufacturing index is a composite index that gives equal weight to new orders, production, employment, supplier deliveries, and inventories, measuring the change in production levels across the U.S. economy from month to month. The report is released on the first business day of each month. Thus, it is one of the earliest indicators of economic activity that investors and business people get regularly.” — Investopedia

“BNSF Railway owes Washington state’s Swinomish Indian Tribal Community \$394.5 million for violating an agreement governing railroad operation across tribal land, a federal judge has ruled after a four-day bench trial, the Seattle Times reports. He had previously ruled the railroad had violated a 1991 agreement that allowed only one train of no more than 25 cars per train in each direction each day” — Trains Newswire, June 17

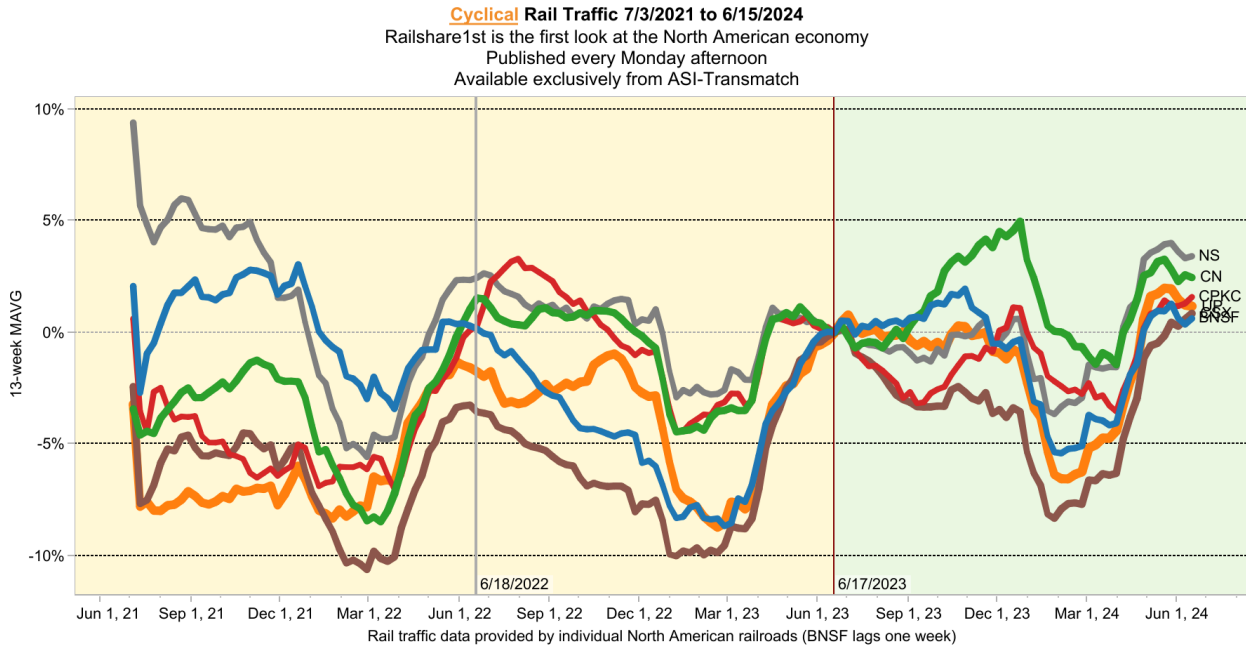
“Michigan-based Lake State Railway (LSRC) will transition COO Mike Stickel, to President and CEO, succeeding John Rickoff, who will become Board Chairman. Former Carload Express CEO Mark Rosner will join LSRC to fill the EVP and COO role. The changes take effect July 15, 2024.” — Railway Age Newswire, June 18

As we near the end of 2Q2024, Class I railroad shares are all below their 200-day moving averages, having begun their negative trend back in March. Similarly, the manufacturing ISM index continues its slide into negative territory. The June Manufacturing Index reported that the “manufacturing sector contracted in May for the second consecutive month and the 18th time in the last 19 months.”

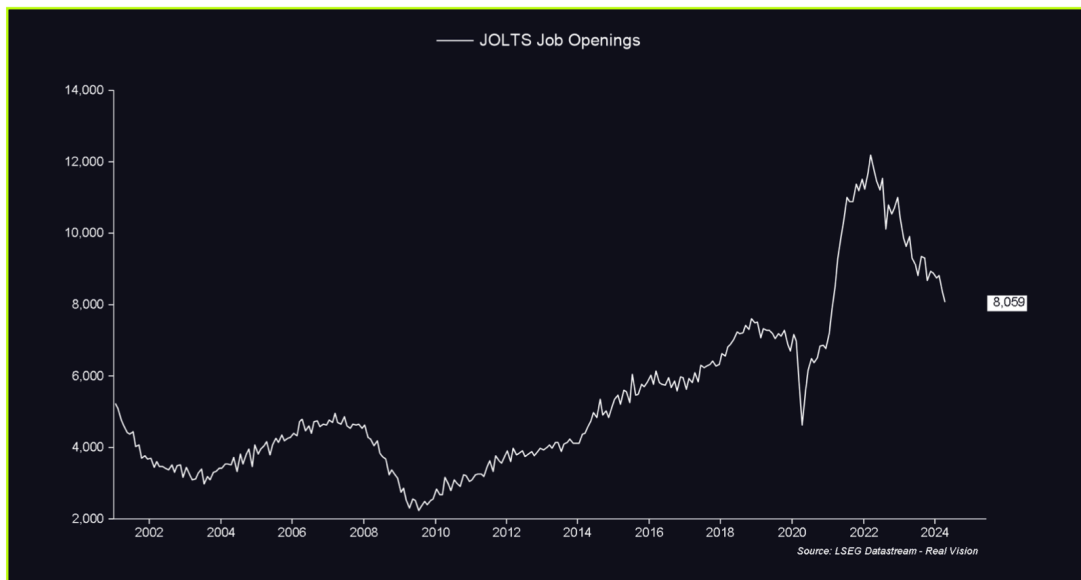
By way of review, the ISM manufacturing index, also known as the purchasing managers' index (PMI), is a monthly indicator of U.S. economic activity based on a survey of purchasing managers at manufacturing firms nationwide. It is considered to be a key indicator of the state of the U.S. economy. A sampling of the May report:

Index	May	April	% point chg	Direction	Rate of Chg
Mfg PMI	48.7	49.2	-0.5	Contracting	Faster
New Orders	45.4	49.1	-3.7	Down	Faster
Production	50.2	51.3	-1.1	Growing	Slower
Inventories	47.9	48.2	-0.3	Contracting	Slower

This in turn translates into fewer revenue units on the railroads. For the past three years none of the Class I's have seen even five percent growth in units and the flag formation at the right hand side of the chart reflects the present soft economy.



And one final chart: the Job Openings Labor Turnover Survey (colloquially The JOLTS Report) shows another fairly large drop in April (8059k versus 8350k expected). We also saw a negative revision of 133k for the previous month.



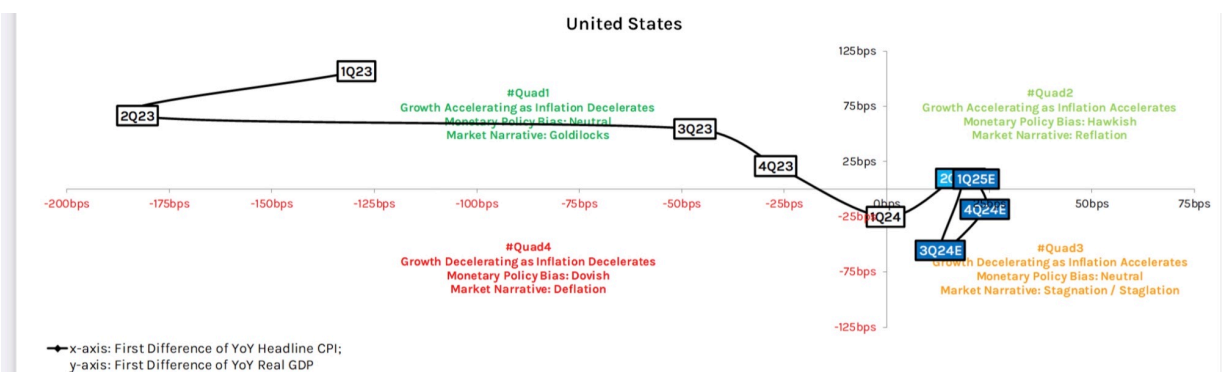
I think a key take-away for railroad operators is that one way to replace lost carloads from existing customers is to create new ones. The above italicized news item from LSRC provides some clues as to how to do it.

RA Executive Editor Marybeth Luczak writes, “LSRC, *Railway Age’s* 2021 Regional Railroad of the Year, was established in 1992 and operates a 375-mile rail network that runs from Plymouth through its headquarters in Saginaw, up to Gaylord and Alpena; lines also run to Midland, Bay City, and Paines.

“Annual freight volume is approximately 60,000 carloads; commodities include automotive, aggregates, cement, agriculture, forest products, metals, and chemicals, among others. The past 14 years have been a period of robust growth and modernization and LSRC has more than doubled its annual carloads since 2018.”

She concludes, “Mike Stickel has brought a creative vision and strong leadership that have helped the railroad dramatically, from modernizing its physical plant to rebalancing the mix of business to enhancing and improving customer service.” In other words, excelling at Railroading 101: making service commitments and then following through on them. (Didn’t UP’s Jim Vena say something like that just last week?)

As for where we are in the economy, the economic “quads” graphic at [hedgeye.com](https://www.hedgeye.com) sums it all up in one glance. The X axis is the rate of inflation change; the Y axis is the same for growth. We are at the moment in the top left corner of Quad 3: slowing growth against a tiny bit of inflation increase. The best sectors for railroads are consumer staples — think beer and canned goods — and utilities. Plan accordingly.



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