

RAILROAD WEEK IN REVIEW

June 28, 2024

“Trackside detectors that might have prevented the [East Palestine] crash failed to accurately detect the temperature of a burning wheel bearing 20 miles beforehand, according to the National Transportation Safety Board.” — Associated Press, June 25

“Workers had performed maintenance on the Youngstown Line between Conway Yard and New Castle on May 8. Crews detached and reattached track-mounted components of a hot bearing detector but testing after the accident showed that the detector's transducers were attached incorrectly and reporting reversed train travel detections.” — KDKA News, Pittsburgh, June 1, 2023 [emphasis added — rhb]

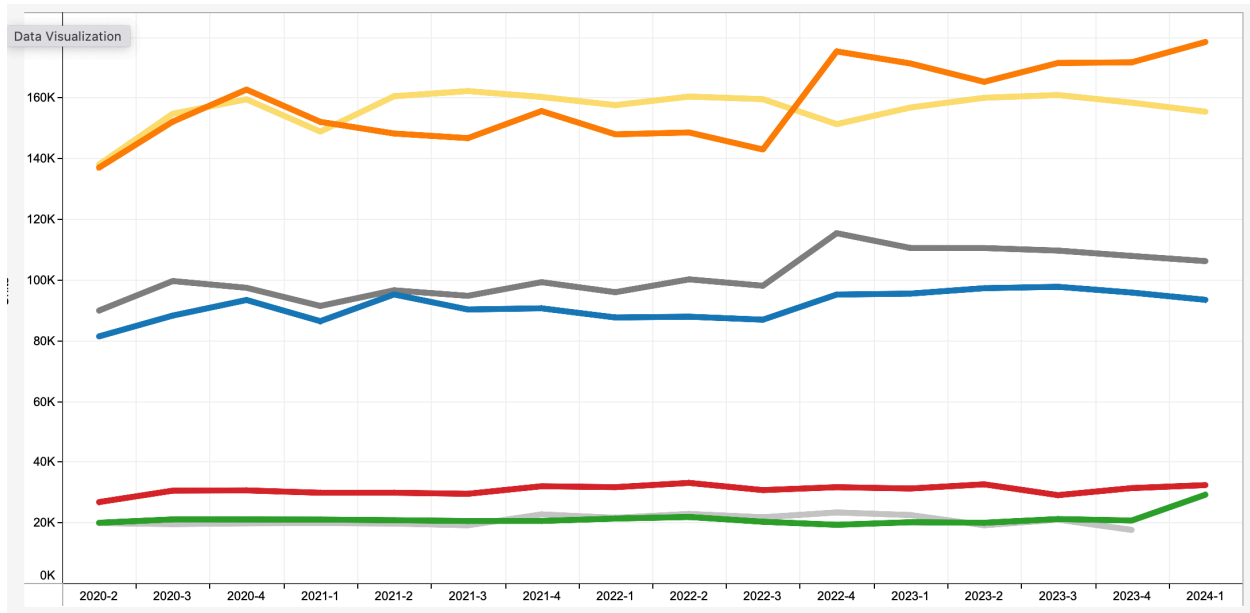
“Rail velocity strengthened throughout 2Q24, improving from 1Q's flat growth with absolute velocity levels down. Zooming into specific rails, NS demonstrated the best Y/Y service metric improvements this quarter — largely comp-driven gains from service issues related to last February's East Palestine derailment.” — Bascome Majors, Susquehanna Financial Group, June 24

The tea leaves are pointing toward a continuing slow economy in 2H2024. I'm expecting to see even slower rates of growth as inflation accelerates — stagflation, if you will. The “heat and eat” commodities from grain to gasoline and consumer staples — think packaged foods and detergents — will hold their own.

The AAR commodities list for YTD through June 15 show double digit gains in only intermodal (no surprises there) and petroleum-related commodities. With respect to this last, the AAR's *Rail Time Indicators* for June tells us, “This is an extremely broad category that includes crude oil, liquefied petroleum gases, various fuel oils, and much more. Most of the subcategories appear to be seeing carload growth this year, though crude oil is the primary driver.”

Carloads of consumer staples include STCC 20 “food and kindred products “ — canned goods, fresh, frozen, and dried produce, sweeteners and oils, beverages from beer to cherry coke to port wine. This chart of STCC 20 carloading shows a consistent pattern irrespective of the rates of growth or inflation or the general health of the economy.

Though it's only a small portion of total carloads, it's constant. The top two lines are the western roads, the middle two are the eastern roads, and the Canadians carry the least.



BNSF plans to develop a new 4,321 acre distribution facility near Phoenix, in northwest Maricopa County. The development will be a master-planned logistics hub that will accommodate the transportation, storage, and distribution of goods and materials throughout the Phoenix metropolitan area and the greater southwest.

The facility is designed to respond to the dynamic and rapidly changing needs of BNSF's customer base efficiently and sustainably, offering streamlined supply chain solutions.

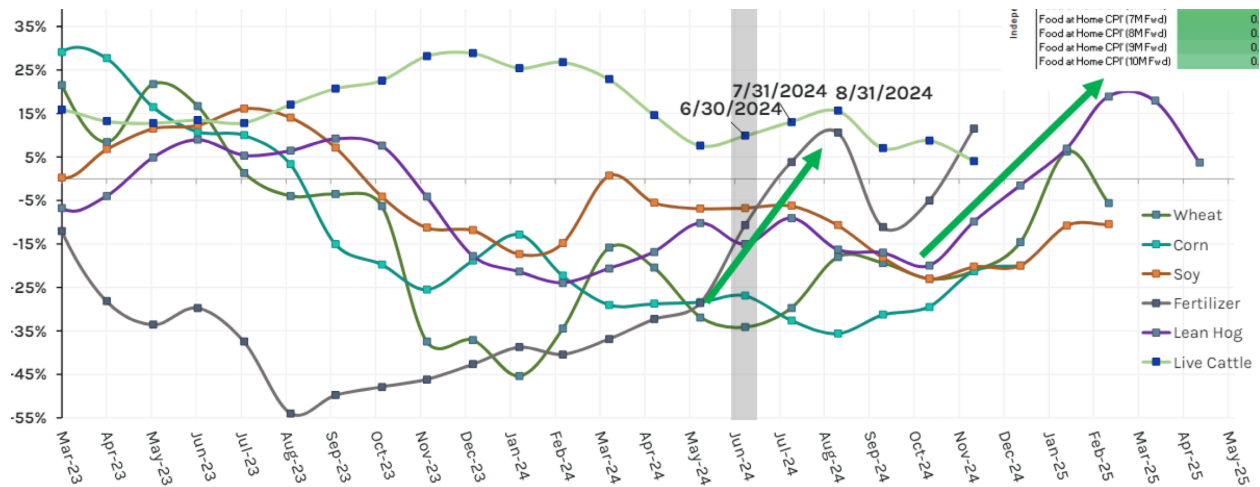
The three distinct yet interrelated components include:

- * An intermodal facility on 1,770 acres, which will serve as a transfer hub for containers;
- * A logistics park on 1,420 acres, which will provide sites for state-of-the-art warehouse and distribution facilities;
- * A logistics center on 1,131 acres, which will provide direct-rail-served sites supporting local industries.

The facility will enhance customers' ability to optimize supply chain operations while reducing environmental impacts and supporting current and future growth. The project will generate significant jobs and promote economic development by allowing businesses to co-locate together.

“As BNSF and the customers we serve adapt to shifting marketplace needs, evolving supply chains, and significant technological advancements, we identified a need for additional rail capacity in the Phoenix metro area,” said Vice President of Service Design Jon Gabriel. “Arizona is an important region to expand and advance our intermodal network capacity. This is a long-term investment and commitment to our customers and consumers in Arizona and beyond.”

Fertilizer is an industrial chemical that is definitely part of the "heat and eat" scenario and is a major railroad commodity. This [hedgeye.com](https://www.hedgeye.com) chart shows the relationship thus:



Wheat, corn and soybeans are in the AAR grain group; lean hogs and cattle are STCC 201x. NPK fertilizers go into the ground to grow the corn and beans which in turn comprise a large component of animal feed. What goes around comes around by the carload.

The two NS accidents cited in the opening quotes smack of maintenance failures most likely caused by unqualified and unsupervised personnel doing the work. I suspect budget cuts and layoffs of field-experienced staff are the root cause.

There are no details about the NTSB’s root cause analysis in either of the statements released to the press. But to those of us with hands-on operating experience, proper root cause analysis has a great record for preventing repeats of the same kinds of incidents.

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