RAILROAD WEEK IN REVIEW

October 11, 2024

“Absent volume growth, the only way railroads will be able to make their investors happy is by resuming cost-cutting with a vengeance. You may say that there’s nothing left to cut. Why, look at how Precision Scheduled Railroading has shrunk locomotive fleets, shuttered shops, closed hump yards, reduced local service, pruned intermodal networks, gutted headquarters, and cut overall employment levels.” — Bill Stephens, Trains Newswire, Oct 4

“At CN, we know all too well that the winter brings unique operational challenges. Our Winter Plan reflects learnings and feedback from our railroaders, customers, supply chain partners and stakeholders. This collaborative approach allows us to put in place proactive solutions across the network as we make the operational shift for winter operations. Having this work done in advance ensures our continued ability to deliver safe and reliable service for our customers, supply chains, and the North American economy.” — Tracy Robinson, President and Chief Executive Officer, CN, Oct 1

“Berkshire CEO-elect Greg Abel has been taking a more hands-on approach lately with BNSF. Abel has openly discussed his dissatisfaction with the freight railroad’s profit, and BNSF recently tapped Ed Harris, a proponent of precision scheduling, an operating model that is prized by investors and that executives at BNSF have resisted. Harris has told people that Abel recruited him as a consultant for BNSF.” — WSJ, Oct 4

According to the Journal, “BNSF says it isn’t rolling out the PSR model for its operations.‘BNSF never was a PSR railroad and isn’t becoming one now,’ Matt Igoe, BNSF’s chief operating officer, said in a recent interview. ‘Many of the practices now broadly described as PSR were best practices that BNSF utilized long before the PSR moniker existed.’”

I’ll second that. To me, this is a non-story. Hunter began developing his whole precision scheduled railroading concept while at BN in the 80s, having come over from the Frisco to help shape up the carload network. Pre-BNSF, the scheme morphed into the *Tactical Traffic Planner* to be incorporated with the ARES PTC system and has since evolved into the original Precision Scheduled Railroading, which Hunter first implemented at the IC.

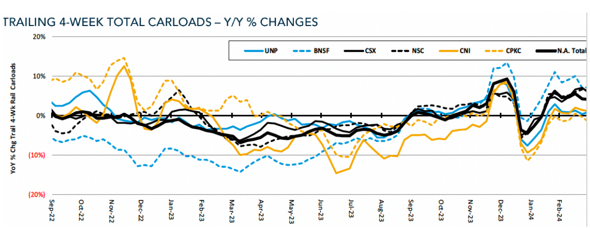
It worked. I spent a couple of years doing short line consulting work for BNSF back in the Matt Rose days. We were running a scheduled railroad and our challenge was to make sure shortline cars were at the interchange when BNSF showed up. We were sending advance consists to the short lines to make sure they had enough power to take the cars we were delivering at the interchange.

By having the right assets in the right place at the right time, BNSF was able to minimize what one might call “unscheduled events“ such as crews outlawing or trains being held out of yards for want of room. Well before this experience, I had chatted with Hunter at an Illinois Central analyst meeting and he talked about the need to schedule everything from crews to track maintenance. That was my introduction to PSR and when Hunter wrote his book he sent me an autographed copy.

As to the present case, if this means the Berkshire head office is going to start managing owned companies then one of Berkshire’s most attractive attributes is being diminished, in my opinion. As a long time BRK shareholder I am seriously displeased. I mean, how long until Abel turns on Marmon and UTLX?

One really can’t fault BNSF for being down in revenue units. The whole surface transportation business has been in a funk YTD. Below left is the IYT iShares US Total Transportation ETF. The top 10 holdings make up 76% of the index and include the US Class Is, the biggest US airlines, a few truckers, and even Uber. And AAR revenue units YTD through Q3 are up 3.3% in total, with intermodal up 9.5% and manifest carloads plus coal down 3.3%.

Below right is a two-year chart of total US carload (revenue unit) trends, courtesy of Bascome Majors at Susquehanna Financial. See how the rightmost inch of his chart mirrors the right end on the IYT chart. I mean, if the traffic isn’t there, all the PSR in the world can’t create additional volumes.

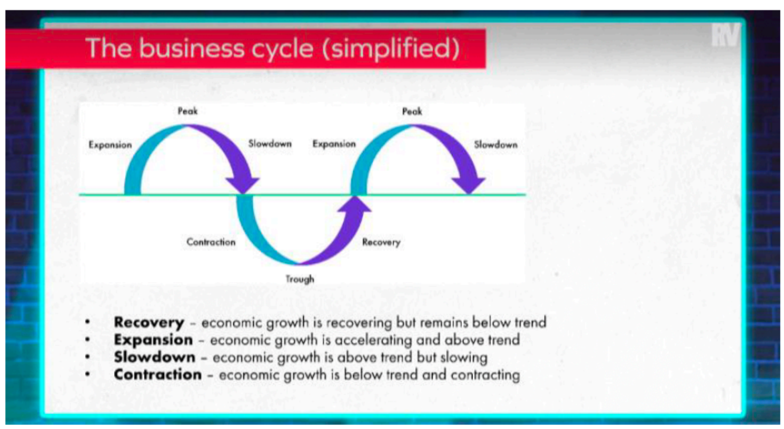


The July ISM report tells us “economic activity in the manufacturing sector contracted in July for the fourth consecutive month and the 20th time in the last 21 months.” Here’s a portion of their summary chart:

Index	Series Index Jul	Series Index Jun	Percentage Point Change	Direction	Rate of Change	Trend* (Months)
Manufacturing PMI®	46.8	48.5	-1.7	Contracting	Faster	4
New Orders	47.4	49.3	-1.9	Contracting	Faster	4
Production	45.9	48.5	-2.6	Contracting	Faster	2
Employment	43.4	49.3	-5.9	Contracting	Faster	2
Supplier Deliveries	52.6	49.8	+2.8	Slowing	From Faster	1
Inventories	44.5	45.4	-0.9	Contracting	Faster	18
Customers' Inventories	45.8	47.4	-1.6	Too Low	Faster	8

Remember that an index rating under 50 shows contraction and over 50 shows expansion. And it's all connected to the business cycle, per this earlier chart inWIR:

The tea leaves I've been reading suggest we're entering the trough phase of the business cycle. I suspect we'll hear of better volumes ahead in the upcoming Q3 analyst reports. Fingers crossed.



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