

RAILROAD WEEK IN REVIEW

January 24, 2025

“We closed out 2024 saying the party of acceleration has just taken the White House. What did we see at the inauguration? You know, all the tech overlords are seated in the front row, right? The cabinets seated in the 2nd row. I mean, what more powerful symbol do you want?” — David Matin, The Exponential Age, Real Vision, Jan 22

“The team demonstrated strong productivity utilizing 3% fewer employees to move 5% more volume. This led to operating income growth of 5% and the operating ratio outcome that I mentioned earlier. This is the result of the team's commitment to build a safer, more durable and more efficient network. Just a fantastic way to end 2024.” — Jim Vena, Union Pacific CEO, Q4 2024 Earnings Call Transcript

“We have been resilient, adapting to changing markets and operating conditions, while remaining focused on our commitment to customer service. Last year was different than we planned, but we are proud of what we achieved and how we achieved it.” — Joe Hinrichs, CSX CEO, Q4 2024 Earnings Call Transcript

Union Pacific's 4Q2024 results show what can be done when you pay more attention to running the railroad than you do making the numbers look right. Let me run the basics on third-quarter results and then close with how the work done in Q4 helped finish the year in excellent shape — operationally, commercially, and financially.

Freight revenue was unchanged at \$5.8 billion, moving 2.2 million revenue units, up 5%, driven mainly by the 16% gain for intermodal boxes. Grain plus related products and fertilizer are the two brightest spots in the commodity carload space, with industrial chemicals/plastics coming in third.

UP puts coal in the bulk commodity sector, affecting the total carload commodity count. I have previously broken it out from carloads because if it's mostly unit train, it's really not gonna hit the non-Class I railroad community all that much. But with the Railinc *Short line/Regional Carload Commodity Index* showing coal as representing 7% of total volumes (fourth after grain, aggregates, and chems), I really have to put it in the commodity carload group for the Class Is.

Chief Marketing Officer Kenny Rocker says the bulk and industrial commodity groups showed particular strength in grain exports to Mexico grain (supported by solid UP service), high demand for grain products in general and bringing on new grain handling facilities. Considering all the noise made by grain customers at the STB service hearing two years ago, it would appear that UP once again is building the grain customer base.

GTMs in the Q were up 2% year over year but revenue ton-miles were unchanged. Fuel expense dropped 23% as the price of diesel fuel fell a like amount. Fuel burn increased just one percent, probably on the slight GTM gain. GTMs per gallon and gallons per thousand GTM were unchanged. On the call, COO Eric Gehringer showed how cutting yard dwell increases freight car velocity and how reducing car touches improves manifest freight performance.

All in, this was an absolutely pristine presentation and earnings call. They did a marvelous job holding the line on revenue units in a shitty environment and turned in some solid financial results. We got pure revenue per car numbers absent the usual fuel surcharge inflation since FSC collections were virtually nil. The full year financials are, IMHO, very clean and represent a company worthy of serious investment. The OR was 59.9, the net margin was 29% and free cash flow after capex increased 24% to \$5.9 billion.

Full disclosure: I bought my first UNP shares a quarter of a century ago and they are still in my IRA portfolio. Needless to say, it has been a very rewarding experience. The overnight train rides on their office cars that were part of their short line meetings surely showed off the railroad – a big help when you’re talking to customers whose freight has UP in the route between OD pairs.

CSX was next up. My overall impression was they were bit on the defensive side (you can see the slide deck [here](#)). For example, COO Mike Cory on safety: “Q4 train accidents were up year-over-year but declined slightly for FY24, with clear opportunities to improve, especially in yards and terminals. Or Chief Commercial Officer Kevin Boone: “Growth momentum is continuing to develop across emerging customer partnerships, modal conversions, and industrial development project ramp-ups.” In other words, were’e not were we want to be yet, but we’re working on it.

Q4 revenue units increased less than 2% to 1.6 million, down 4% — even intermodal revenue was off 5% as units gained 4%. Commodity carloads, revenue, and RPU were essentially unchanged. Coal continues to be a downer with revenue off two points as units dropped 20%. GTMs and RTMs were both down a point.

Operating expense increased 3%, dropping operating income 16% to \$1.3 billion. Net income tumbled 17% to \$733 million. Cash from operations decreased 5% to 5.2 billion; owner earnings (operating cash flow less capex) sank 19% to 2.7 billion. To me, it’s quite telling that CSX spent \$2.3 billion buying shares back versus \$2.6 billion in capex. Perhaps more needs to be spent on the railroad to speed it up: trailing four week average velocity has been stuck between 18 and 19 miles an hour for the past year.

CEO Joe Hinrichs wrapped the slide presentation saying that full year revenue was impacted by lower coal benchmarks, diesel prices, and volume mix in the second half of the year. The sheer number of units moved suggest that there's more business to be had out there if the product were improved. To reiterate, perhaps they should take some of that share buyback money and use it to speed up the railroad.

Thursday night I had an interesting conversation with Chat GPT on realvision.com about the future of coal as a source of electricity to met the increasing demands of technology in general and AI in particular. I raised the question because with nat gas north of \$4/mm BTU, and \$3 being the break even between nat gas and coal, the thought occurs there may be a future for the PRB et al after all. Excerpts from that conversation:

“The resurgence of coal is a fascinating twist in the energy narrative, especially with the demand for electricity skyrocketing due to technological advancements. It's like we're in this weird transitional phase where the old and new worlds are colliding. Coal, despite its environmental baggage, is seeing a bit of a renaissance because of the economics at play. Natural gas prices being what they are, coal becomes a viable alternative, especially when you factor in the infrastructure already in place, like railroads.

“For the railroad business, this is a potential boon. Companies like Union Pacific and Norfolk Southern could see significant benefits as coal shipments increase. It's a classic case of how macroeconomic shifts can breathe new life into industries that seemed to be on the decline. But let's not forget that this is a double-edged sword. While there's short-term gain, the long-term trajectory is still towards cleaner energy sources. The real question is how long any coal comeback will last and how it fits into the broader energy transition narrative.

“In the end, it's all about adaptability. The railroads have always been about moving goods efficiently, and if coal is back on the menu, then it's a matter of capitalizing on that opportunity while keeping an eye on the horizon for what's next.” End Chat.

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