

# RAILROAD WEEK IN REVIEW

February 7, 2025

*“By threatening to impose illegal and unjustified tariffs on its partners in the United States-Mexico-Canada Agreement (USMCA)—a gold-standard free-trade deal agreed to by Mr. Trump himself during his first term as president—America is saying that trade agreements count for nothing.” — The Economist, February 5*

**In more than 20 years of writing WIR** (yep, it really has been that long!), I’ve never once deviated from what I set out to do, which was this: Find a railroad subject that interested me — genuinely interested me — pick it apart, try to understand why it was important and what the implications are and then try to communicate my findings in an entertaining and educational way.

Or, to paraphrase what WSJ’s Daniel Henninger wrote in his final column last week, “I usually try to begin with a basic opinion or thought about any event. We need a news peg to get the juices running, now more than ever. But the road to the article’s end — the process and craft of elaborating an opinion and giving it support—can be an exciting, often unpredictable, adventure.”

And so it is that WIR is crafted mainly with the owners and operators of non-class railroads in mind, and that I try to keep in mind that running a railroad is really running a business. Which means the first order of running a railroad is creating and keeping customers that will stick with you through thick and thin.

In my two decades-plus of selling, I always got the best results by knowing as much about the customer’s business as I could. If you’re selling carloads of corn to a chicken feed mill, you’d best know something about the poultry business. Or when selling carloads of scrap steel or anthracite to a steel mill, it would help to understand how an electric arc furnace works and the market for raw steel slabs. You get the point.

So to keep readers abreast of market trends I turn to the indices published by the Institute for Supply Management (ISM) and the National Federation of Independent Businesses (NFIB). And I depend on the *Global Macro Investor* (GMI) for much of my source material from various industry-watching players.

For example, we have the surge in the January *Philly Fed New Orders Index*. Says GMI, “This is exactly what we had been expecting. As we’ve been pointing out, the ‘Expectations’ components are typically the leading indicators, and throughout Q4 we saw expectations across many of the key surveys explode higher.

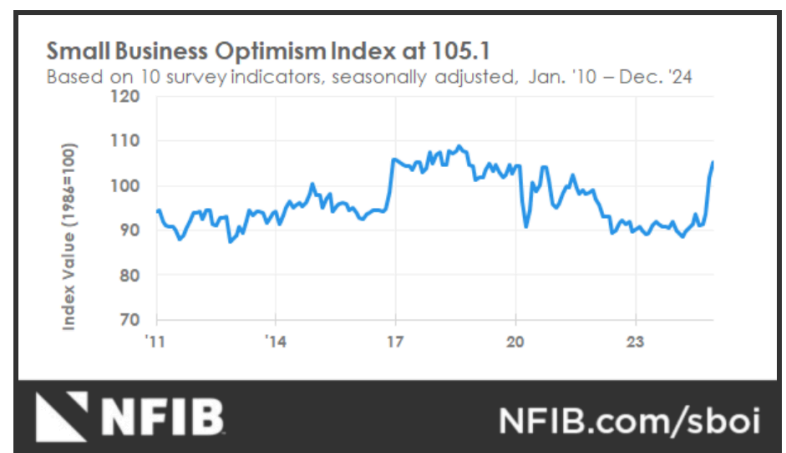
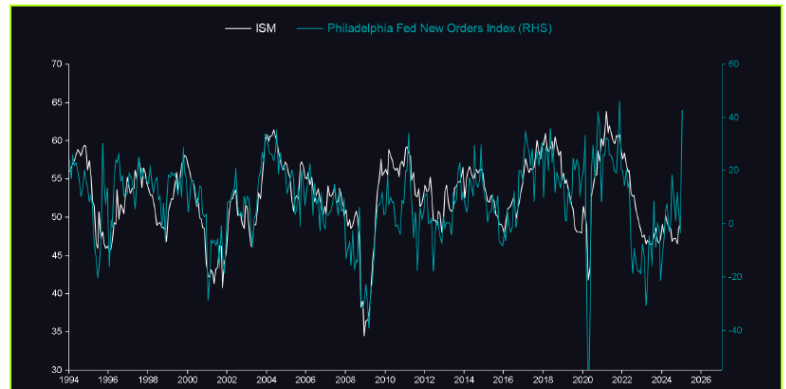
“At the same time, some of the ‘Current Conditions’ metrics – whether in manufacturing surveys, consumer confidence, or small business confidence – softened slightly during Q4. But we emphasized that it was the Expectations components that really mattered, as they would eventually filter through to Current Conditions.” And so they have.

Here you have a sampling of the business trends that can provide an idea as to what your customers’ businesses may be facing and how that can indicate how much rail freight they’re going to use.

Per the NFIB: “The December Small Business Optimism Index rose 3.4 points to 105.1, the highest reading since October 2018.

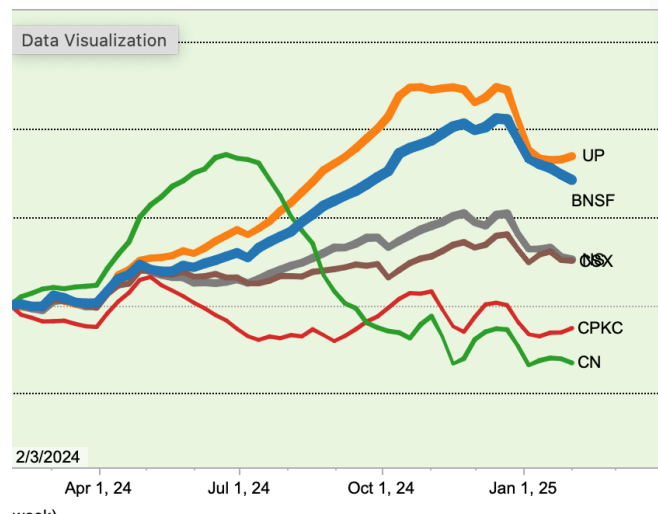
Small Business owners feel more certain and hopeful about the new administration’s economic agenda and anticipated pro-business policies and legislation in the new year.”

Charts always help. Look at the far right uptick on the ISM chart above and this from the NFIB.



The parallel between shippers’ outlooks and railroad results can be seen in this chart from ASI-Transmatch. The downturn in the ASI image is the blip after the up trend on the NFIB chart.

WIR this year will be all about these trends and how to use them in forming asset allocation programs for your railroad. Feedback is always welcome and eagerly awaited.



**One last thing.** Railroad share price trends can give you another indication of railroad performance. This is a stock chart derived from the share prices of all the US railroads for the last year. The dip on the far right was December, 2024. The previous low had been in July.

This corresponds roughly with the NIFB chart above so the two together convey a snapshot of railroad earnings/revenues for the periods in question.

So let's say I have a short line with a CSX connection. Their stock chart will help me in my approach to CSX with a new business scheme. My experience is that when the Class I is having a banner year they're ready to make the investment in new lines of business.



On the other hand, when carloads are down and operating expenses are seeing an upward rate of change faster than revenues, they may be less receptive to adding a new and untried line of business. And that's why watching business trends, railroad traffic patterns, and share price directions ought to help you walk out the door with an order for new carloads after you've shown the customer that you understand the direction of his business and what it'll take to make *his* numbers.

**The tariff talk that abounds** these days is not likely to be good for the railroads. The three North American countries have so integrated their supply chains that a parts interruption in Canada can affect new car production in Mexico and sales in the US. Same for such commodities as steel re-bar, ag products, fertilizer, lumber, and packaging to varying degrees. You'll find the earliest indications of carload volume trends in the weekly carload reports that all the Class Is produce and are available on their websites.

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