RAILROAD WEEK IN REVIEW
February 14, 2025

“With tariff policy, inflation and global trade conditions in flux, railroads must stay adaptable to shifting demand patterns. The industry enters 2025 with stability but lingering uncertainties, making strategic planning and flexibility key priorities moving forward.” — AAR Rail Industry Overview, February 2025

“Norfolk Southern Corporation completed infrastructure improvements worth $1 billion in 2024. The projects were completed throughout Norfolk Southern’s 22-state network and are designed to ensure the company can continue to safely deliver reliable and resilient service to customers and communities.” — NS Presser, Feb 10

“Since taking office on Jan. 20, President Trump has issued over 40 Executive Orders (EOs) to advance his administration’s policy goals. Most of the orders are not directly relevant to short line railroads… However, some actions may affect programs of direct interest to short lines, at least temporarily.” — ASLRRA Views & News, Jan 29

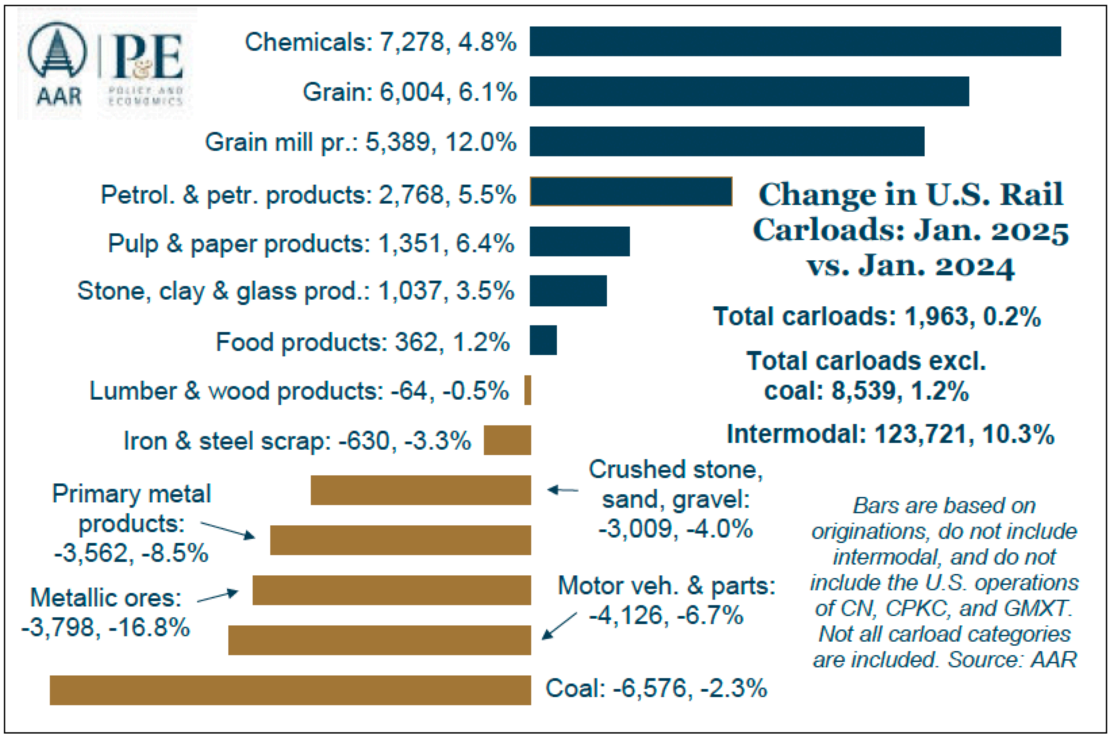
The AAR's *Rail Industry Overview* (RIO) for February corroborates a number of the points I’ve been making all along in these pages. I follow the various services tracking manufacturing and related trends, showing exactly how business cycles, industrial trends, and railroad commodity carloads are all linked inextricably. Now comes the AAR itself picking up on the same theme.

“Strong consumer demand continues to drive strong rail intermodal movements. At the same time, industrial shipments have remained weak, signaling uneven growth across the economy. [However, at this point,] U.S. manufacturing is showing signs of a reversal and is expanding for the first time in two years. Should these trends continue, demand for rail-hauled goods such as motor vehicles, steel, and crushed stone could rise in the months ahead.” But there’s a caveat.

Yes, consumer demand represents something like 70% of GDP. But the community of consumers is split pretty much in half, between those who have a comfortable living and those who do not and are living paycheck to paycheck. So if Mr. Gotrocks wants a new washing machine he orders one from Home Depot and that's that.

On the other side of town lives poor Mrs. Smith to whom eggs at 50 cents each represent a significantly larger bite out of her grocery budget. So clearly, the less-fortunate half of the economy is not a significant contributor to the "strong consumer demand" cited by the AAR above, and that will have ripple effects on commodity carloads of everything from chicken feed to home-improvement lumber.

The RIO continues, "U.S. railroads originated 1.03 million carloads in January, up 0.2% year-over-year, marking the first overall increase in five months. While modest, this



uptick suggests steady underlying demand, particularly in non-coal shipments." As noted above, the "underlying demand" is uneven across commodity groups:

Moreover, "consumer spending" includes both manufactured goods and services. As you can see from the next chart, the service index has been running ahead of the manufacturing index, creating a stronger view of manufacturing than we actually have. Happily, the manufacturing uptake in blue corresponds with the ISM data I shared with you last month, indicating a potential increase in carload commodity revenues.

The chart comes from Schwab Chief Investment Officer Liz Ann Sonders in a Real Vision interview with Ash Bennington last Tuesday. Says Liz Ann, "We have a chart of the ISM manufacturing versus ISM services. And after 2 plus years below that fifty line — that's the blue line here — the ISM manufacturing index, the most recent reading took that back above 50. And you can see that in the last few months there's been a downtrend in the services reading of ISM and an uptrend back into expansion territory in manufacturing that that's been one of our themes that we didn't have a broad economic recession." And there it is.

To close on a more upbeat note, the NS capital program cited in the above italic note, carries a very robust list of accomplishments in the presser. To wit:

** Five Digital Train Inspection portals constructed and in service
** 130 hot box/bearing detectors added
** 17 acoustic bearing detectors installed
** 29 hot wheel detectors installed
** 558 track miles of rail replaced
** 2.1 million cross ties installed
** 4,202 miles of track surfaced
** 30,480 bridge ties replaced

And that's not everything. I only listed those items that will make the railroad run faster, more in the context of keeping things moving than in higher MPH numbers. The railroad concludes, "Norfolk Southern's strategic infrastructure investments are designed to enhance the safety, speed, and reliability of its rail operations, ensuring that customers' freight is delivered on time." Say amen to that.