RAILROAD WEEK IN REVIEW

February 21, 2025

"Union Pacific is among the most efficient operators in the rail industry, which has been on a secular growth path compared with other transport options — water, pipelines, trucks. e.g. — for the past 20 years. The company's freight business is diversified among Bulk, Industrial, and Premium, which reduces the impact of weakness in any single product segment. Management has been leveraging technology and automation to drive safety, efficiency, and productivity in its network. This approach has translated into better service for UP customers, who are willing to pay higher prices for excellent service. " — Argus Research Report, February 3

"Canadian National has long been the Class I railroad with the lowest operating ratio because it was the precision scheduled railroading pioneer in the 2000s. Historically, CN has bolstered its velocity by making greater use of distributed power and extending sidings at port staging areas. We think PSR remains in CN's DNA, though we sense management was focused more on growth than margins between 2019 and 2021, before the 2022 leadership changes." — Morningstar Equity Analyst Report, February 11

"The Short Line Railroad Tax Credit Modernization Act, H.R. 516, has officially gained more than 20 co-sponsors since last week's meetings with ASLRRA members, with more elected officials expected to join the list in the coming days. The bill was first introduced less than a month ago by Representatives Mike Kelly (R-PA) and Mike Thompson (D-CA). Last Wednesday, ASLRRA staff, members of the Association's Legislative Policy Committee (LPC), and other stakeholders participated in more than 120 meetings in congressional offices to highlight the value of the tax credit and the importance of updating its terms to accommodate rising costs and more shortline track." — ASLRRA Views & News, February 12

Bascome Majors, lead rail analyst at Susquehanna International Group, publishes a weekly *Rail Report* that brings together railroad operating stats and commodity carload trends. The latter ought to be of particular interest to regional and shortline railroad owners and operators.

I refer to the tables showing how each major commodity group is faring for each of the Class I railroads. As I have said before, the higher the car count for a given commodity, the more important that commodity is to the Class I. For example, the current Week 7 report shows Union Pacific with particular strength in aggregates.

Clearly UP sees this low RPU business with modest revenue/variable cost ratios as a significant means to boosting the bottom line and solid blocks of cars are key. The best way to get those blocks of cars is to know everything you can about the customers and what they need to remain profitable themselves. You've got to go see the people.

Crushed Stone, Sand & Gravel (includes Frac Sand)										
CSX	4%	(8%)	(3%)	(2%)	(1%)	(3%)	(3%)	(3%)	(9%)	12%
NSC	3%	(3%)	5%	0%	4%	2%	(9%)	(9%)	(10%)	(7%)
UNP	4%	(18%)	(19%)	(16%)	(7%)	(15%)	8%	8%	5%	(8%)
BNSF	2%	(17%)	(15%)	(7%)	0%	(10%)	(10%)	(10%)	(15%)	(15%)
CNI	2%	2%	23%	4%	1%	7%	3%	3%	(11%)	(6%)
CPKC	2%	(15%)	(10%)	(6%)	1%	(8%)	0%	0%	(1%)	18%

For example, if you're proposing an aggregates move to UP, you will find the soonest reception of your traffic when you've done your homework and you know how UP makes money in the aggregate business.

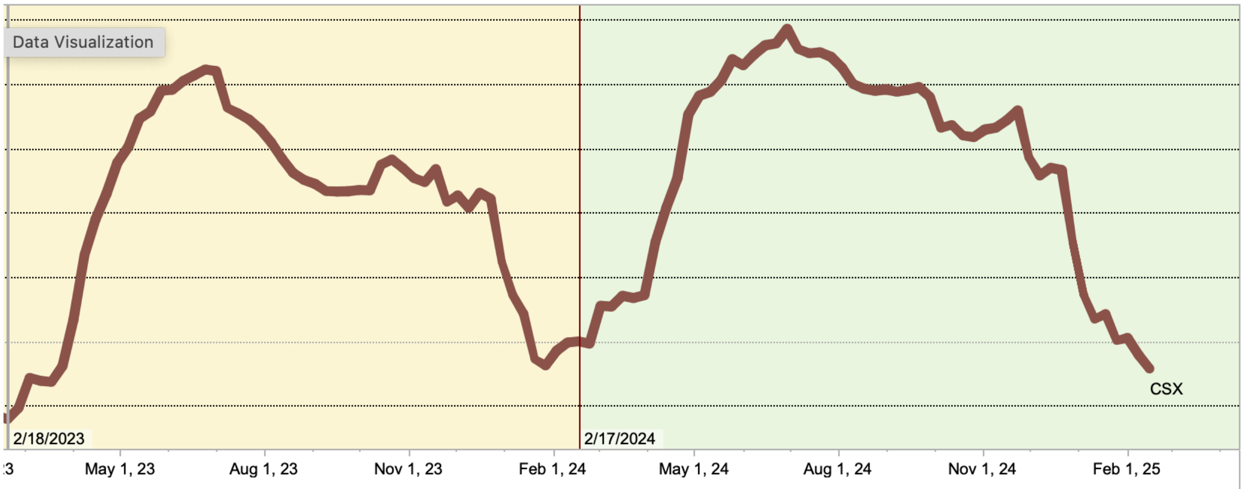
Of course, you have to have the capacity to handle 10 to 50 cars of rock in one train. Watco's Austin Western railroad (AWRR) comes first to mind. They have a significant rock business bringing product from points west of Austin to points east of Austin for a number of end users. When I visited that property a couple years ago I found a railroad with 115-pound relay jointed rail, supported by proper ties and a foot of good ballast.

There was no doubt the crews knew every inch of the railroad and how to deal with the numerous curves and many small hills while hauling 50,000 tons of rock. This is in direct contrast with an eastern short line in the chicken feed business where they were trying to haul 20-car blocks with tired locomotives on 80-pound rail and cinders for ballast. It was mostly FRA class 1 and excepted track, so 10 miles an hour was all they could do. In short, the railroad lacked adequate capacity for the traffic it was given.

I forward Bascome Majors' weekly car count report to a select group of client short lines. Please let me know if you would like to be added to that list.

Another useful resource is the *ASI/Transmatch* chart set. Here you can see graphically the trends of most commodities by railroad. In our CSX example, here we see the trend for what ASI calls "cyclical commodities" — economically-sensitive commodities moving as manifest carload freight. The downtrend in the second half of 2024 is unmistakable and coincides with what we've seen from the ISM/manufacturing charts regularly published here.

Here is the CSX two-year trend for "cyclical" commodities ranging from aggregates to lumber to steel and chemicals.



If you want to drill down to the specifics, go to the CSX *Quarterly Financial Review* and turn to the "volume and revenue" tables (page 9 in the 4Q2024 report) and see that there was weakness in agriculture/food, metals, and fertilizers. You can see why carloads were down on page 10 of the 4Q2024 QFR:

Merchandise Volume

Chemicals - Increased due to higher shipments of plastics, crude oil, and natural gas liquids.

Agricultural and Food Products - Decreased due to lower shipments of wheat, soybeans, export grains, and food and consumer products, partially offset by higher shipments of domestic feed grain and its ingredients.

Automotive - Decreased due to lower North American vehicle production.

Minerals - Increased primarily due to higher shipment of cement and aggregates.

Forest Products - Increased due to higher shipments of paper and pulpboard.

Metals and Equipment - Decreased due to lower shipments of steel associated with the automotive market.

Fertilizers - Decreased primarily due to declines in short-haul phosphates shipments, including production impacts at customer locations impacted by this year's hurricanes, as well as lower potash shipments.

In short, the best way to stay ahead of your customers and potential changes in your railroad's traffic patterns is to follow the reports from the Class I railroads, the AAR, the ASLRRA, and industry sources such as the ISM manufacturing and NFIB charts, all of which I have referenced frequently in previous WIRs. Go forth and do great deeds.