

RAILROAD WEEK IN REVIEW

March 14, 2025

“The Idaho-based general contractor spent hundreds of thousands of dollars on materials like lumber, windows, cabinetry and steel to stockpile them before the tariffs hit. He now has nearly a third more of these supplies compared with last year. And he is renting out shop yards to stockpile these goods, which his suppliers often import from Canada, Mexico and China and could rise in price under tariffs.” — WSJ 3/11

“The S&P 500 entered the year with super-inflated multiples and was priced for perfection. Few, if any, expected the trade and tariff file to dominate in these early weeks as has been the case — this was low on the list of voter concerns during the election campaign. But there have been markets to hide in and our call for investors all last year to take their U.S. profits and deploy them in more reasonably priced stock markets has now paid off.” — Breakfast with Dave, March 12

Canadian National shares shed 7% last week, continuing a downward drift that could be traced as far back as April, 2024. Loop Capital rail analyst Rick Paterson assures us, “We now have data for the subsequent week, ending February 28, and it thankfully recovered what was lost the prior week, resulting in V-shaped spikes in the charts. This is good news, but what caused the mini-crash?”

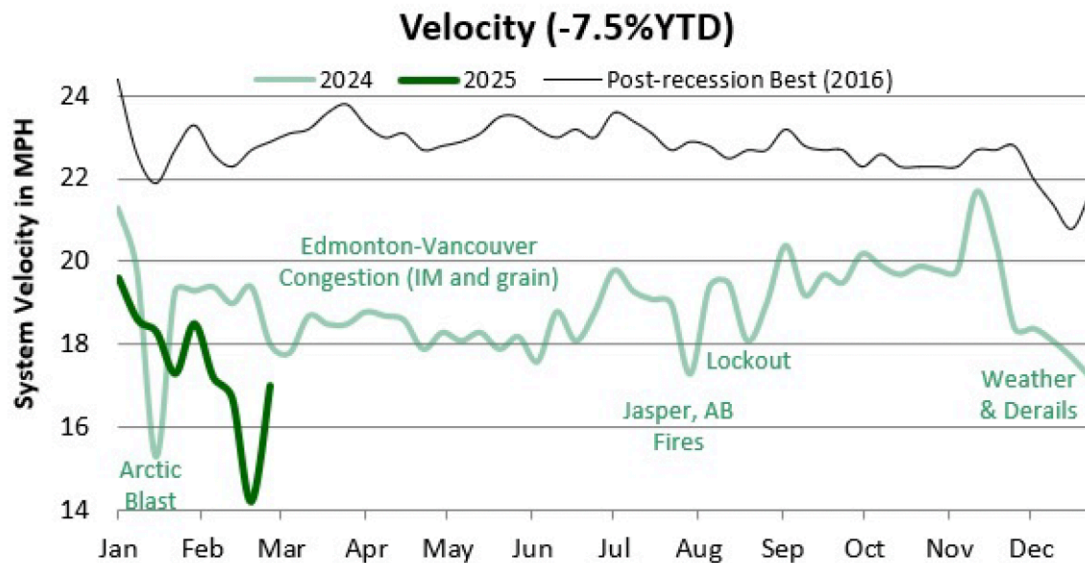
Rick continues, “According to CN Investor Relations, it was entirely a cumulative and compounding winter weather effect, with persistent February cold and snow in the Western and Eastern regions, as well as the US Midwest. There was also some flooding in the South. As a result, CN had to activate its winter operating plan/tier restrictions on most February days, which means shorter trains, insufficient capacity, and growing backlogs (which are now being worked down).

“For perspective, CN's winter operating plan has three tiers. Tier 1 becomes effective when temperatures drop below -13 degrees F and CN limits intermodal and bulk train length to 10,000 feet. Tier 2 kicks in when temperatures drop below -24 F and further restricts train length to 8,500 feet; and Tier 3 starts at -33 F and caps train length at 6,700 feet.” All of which proves once again that railroading is indeed an outdoor sport, and CN has the playbook to deal with it.

Rick concludes, “As measured in Tier days, this winter has been CN's most challenging since 2020/21, which included the last big polar vortex. The bottom line here is that after four months of Tier restrictions the compounding effects on train length and capacity

caught up with CN in the third week of February. Let's at least be thankful CN has sufficient power and crews, because deficits on either might have turned this one-week blip into a months-long problem."

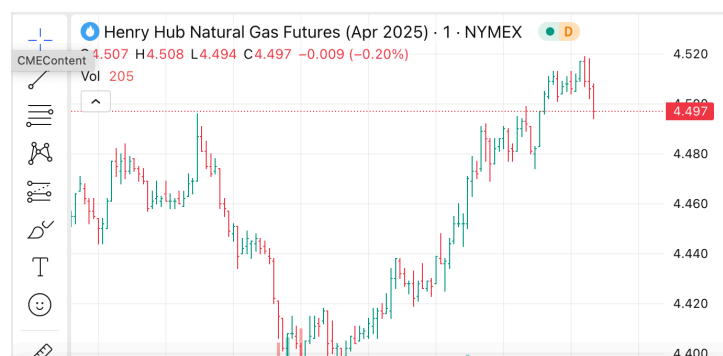
If a picture is worth 1000 words, this chart speaks with great eloquence:



Source: CN and Loop Capital

Scott Group's Friday Freight missive is always particularly helpful in sorting out what the competition is up to and what the railroads are doing to meet that competition. Last Friday's note was no exception. He writes,

"We spoke with an electric utility about current coal demand, rail service, and rail pricing trends. Coal burn for this utility declined in both 2023 and 2024 because of mild weather and fairly low natural gas prices." [But no more as the oft-quoted \$4/mbtu coal/nat gas breakeven point is now ancient history.]



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Scott continues, “Entering the year, utility coal stockpiles had surged to over 100 days of burn versus target levels closer to 40 days. As a result, our contact has stopped taking some shipments of coal to work down inventories. Our contact hopes to reduce stockpiles closer to target levels some time this summer depending on the weather.

“On the positive side, natural gas prices are now back around \$4 and are supportive of some incremental gas-to-coal switching. In addition, this winter has been colder than last year, so our contact expects higher coal burn in 2025.

“Rail service levels were poor on both BNSF and UNP last year because of a lack of crews and power. However, service has improved in recent months on both western carriers. Turning to pricing, our contact expects to start renegotiating rail contracts later this year for 2026, and he expects higher pricing increases from UNP than from BNSF.

“Looking ahead, this utility still plans to add some natural gas and renewable capacity over the next several years, which will bring down coal as a percent of the generation mix to 20% (down from over 50% in 2017). That said, this utility has no plans to retire any remaining coal-fired generating capacity and is optimistic that the new Trump administration will be positive overall for the utility coal industry.”

All of which reminds me of something Hunter Harrison said about coal when he first arrived at CSX many moons ago. In essence, he said if coal is there and you can handle it with existing capacity, go get it, but don't be out there adding capacity to bring on additional coal business. My sense is that both BNSF and UP are taking the Harrison approach.

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