RAILROAD WEEK IN REVIEW
September 5, 2025

"My job is to understand why things happened in the past. When something occurs right in front of you, it's hard to see the reasons for it, but hindsight provides a clearer perspective." — Diana Bishop, Shadow of Night by Deborah Harkness

"After a few days thinking about the firing of STB Board Member Robert Primus, we're also troubled by the 'why'. If we know the 'why' it at least enables an educated guess as to what comes next. There's no doubt a backstory here, which we may never know, but we've been trying to come up with plausible scenarios that might explain the motivation of the Administration to terminate Mr. Primus, and all of them are somewhere between inappropriate and awful." — Rick Paterson, Loop Capital, September 1

"The STB today announced it has granted authority for Watco Holdings, Inc. (Watco) to acquire control of Great Lakes Central Railroad, Inc. (GLC), a Class III rail carrier operating in Michigan, subject to certain conditions. The acquisition will add GLC, which operates approximately 379 miles of rail line, to Watco's portfolio of short line and regional rail carriers across the United States." STB Presser, August 29

This week I want to drill down into the merchandise carload sector and how to increase share from the trucks. Going back to what Peter Drucker wrote many moons ago, "The purpose of any business is to create customers." And to quote my publisher when I was selling ad space for *Popular Mechanics* in the 1970s, "To get the orders you gotta go see the people." Be accessible. Like truckers.

The financialization of the Class Is has pulled them away from the customer dock and deeper into spreadsheets, leaning hard into a bastardization of Precision Scheduled Railroading—pruning sidings, demarketing low-volume origins, and concentrating on point-to-point unit trains while avoiding the messy business of working individual shipper sidings.

That's precisely where the short lines and regionals have found their niche. They thrive on carload diversity, building portfolios that might include lumber, feed, scrap, plastics, and a handful of boxcars for the local paper mill. What the big railroads dismiss as "orphans," the short lines treat as core business, backing it up with hands-on marketing and door-to-door customer care.

It's a structural difference: UP or CSX can't afford to chase a dozen cars a week on a marginal branch, but a Watco or a Genesee & Wyoming property can—and does. In doing so, they hold onto freight that might otherwise be lost to the highway. The irony is that these "little guys" are quietly preserving the very carload ecosystem the Class Is insist is in terminal decline, and without them the erosion of the big railroads' franchise would be even steeper.

So while the AAR makes good points about the industry's economic importance, the Class I's themselves aren't always walking the talk. The glimmer of hope is that carriers like BNSF and Norfolk Southern have begun to create dedicated first-mile/last-mile teams—an acknowledgement that the short lines' strength in customer creation is not a threat, but a lifeline.

I recently chatted with a shortline client who had spent a day on his railroad with his Class I first-mile/last-mile guru. The Class I guy had obviously done his homework. He knew the route structure of the short line, who the connecting Class Is were and their interchange points.

He knew the culture of the shortline operator and how they had grown from one railroad to five and from one small train a day to more than 30,000 cars a year on 200 miles of track — running, among other things, unit trains of grain to a customer they had found and sited along their railroad. In other words, the short line really walks the talk and the Class I rep is in a position to help that short line create even more customers.

The tea leaves and the usual industrial indicators (ISM, NFIB, etc) keep saying manufacturers are seeing increased orders, are able to raise prices, and are increasing their payrolls. If so, it's not showing up as more train starts.

Yes, YTD total revenue units increased 3%, about the rate of inflation, with intermodal leading the pack as usual. According to the AAR, intermodal has been the fastest-growing rail traffic sector over the past 25 years. Around half of rail intermodal volume consists of imports or exports, reflecting the vital role intermodal plays in international trade. But my sense is intermodal box contents tend mostly toward consumer discretionary items (furniture and white goods) and staples from canned soup to wine. Not carload stuff.

Unfortunately, a precise split isn't available. That's because general reporting lumps consumer goods (retail items) and industrial/manufactured goods (components, raw materials) within broader categories without specifying percentages. Definitions overlap — items like electronics, appliances, and auto parts could fall into either category depending on context, further complicating any attempt at a clean split.

The fact remains that the AAR finds that U.S. manufacturing remains in a protracted slump, with weak new orders and minimal output gains suggesting little momentum for a turnaround. Until demand improves, the carload sector is unlikely to provide a meaningful measure of broader economic growth.

Sluggish job creation, rising long-term unemployment, and tepid final sales point to an economy losing steam. The coming months will test whether current weakness stabilizes or deepens into something more persistent. That's why we all have to be more like Diana Bishop: take past experiences and build probable futures around them. And that means going out and asking for the order.

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