

RAILROAD WEEK IN REVIEW

February 27, 2026

“The Surface Transportation Board’s mandate is to ensure that rail mergers serve the public interest, not just the private efficiency of the carrier. A merger that cements a regional monopoly while actively blocking the restoration of passenger service does not meet that standard.” — STB Filing, Colin Finley, resident of NS service area in northeastern Pennsylvania, January 29

“Although Union Pacific-Norfolk Southern did not explicitly define the relevant market, the Applicants rely on the concept of a ‘Seamless Transcontinental Network,’ which they often describe in extremely broad terms to encompass all rail and truck traffic moving between the East and West. This expansive framing has the effect of trivializing the local and regional impacts on competition.” STB Filing, Atlantic Systems, February 5

“At the core of the present dispute is Applicants’ strident and sweeping position that they have no obligation to search for or produce ordinary course documents regarding key issues raised by their Application, including the need for a merger to improve interline rail transportation and how competition in the rail industry will be impacted by their proposal.” STB Filing, CPKC, February 2

Scott Group at Wolfe Research in NY tells us this continues to be a buyer’s market for transportation services. Truckers still beat each other on rates and on Monday Scott sent a note to clients showing that truckload spot rates have declined sequentially and underperformed normal seasonality while the Market Demand Index (MDI) increased sequentially but underperformed normal seasonality.

Scott specifically cites dry van spot truckload rates ex-fuel declining 1.4% sequentially and underperforming normal seasonality (8-year average of +1.1%). The MDI increased 81% y/y vs. +88% and +91% the prior 2 weeks. The MDI increased 6.2% sequentially but underperformed normal seasonality (8-year average of +10.8%).

From this I conclude that the demand is there and the competition among providers is so fierce that the only way to win loads is to buy them with lower rates than the next guy. I hear the same complaint from railroad customers all the time. The truck guy waltzes in, says I can make your move cheaper than the other guy, and I can do it tomorrow. How’s the rail guy who takes three weeks just to get a rate going to compete with *that*?

Scott shows how his group tracks dry van, flatbed, and refrigerated spot rates, along with the Market Demand Index measuring spot market supply/demand/capacity conditions. He believes weekly spot rates provide a good way to see changes in the TL market, and how they often drive sentiment in stock-market trading. But keep in mind that market prices are heavily impacted by seasonality and by which players can accept more loads.

Just last week in his *Friday Freight* letter Scott advised readers that truckload spot rates are now on the rise. He had spoken with a food products trucker who attributes the tightening more to bad weather than a sustained demand change. Interestingly, he writes that most large asset-based carriers continue to deliver flawless service with 98% acceptance levels, while some smaller carriers have had acceptance rates decline.

More to my point about competition among carriers, Scott's contact believes these carriers are trying to chase the tighter spot market at the expense of their contractual freight. As a result, shippers may drop these carriers from future bids. Contract moves thus yield to spot moves because customers don't want to commit.

Still, contract rates are flat in 2026, though some buyers expect a slight uptick momentarily. Scott's contact believes he could achieve flat contract rates this year if he really wanted to, but has to balance rates and service levels without churning through his carrier base. This shipper is also considering a shift of more freight into intermodal. That takes commitments and planning, so I don't see it.

The planned UP takeover of NS continues to raise eyebrows, as you can see from the italicized quotes above. I think there are deeper reasons to take a very cautious approach to this whole exercise, and they start with *operational control*. UP's pursuit of NS must be understood not as opportunistic empire-building but as an expression of a deeply rooted railroad instinct—what Bernard Baruch, writing in the early 20th century, recognized as the necessity of unified operational control.

Railroads are not merely collections of track and equipment; they are physical systems whose efficiency depends upon centralized authority over traffic flows, asset utilization, and capital deployment. Fragmented control introduces invisible friction in the form of interchange delays, inconsistent dispatch priorities, and duplicated infrastructure, all of which degrade system velocity and capital returns. (And customer satisfaction.)

Union Pacific's historic skepticism toward third-party equipment ownership partially reflects its long institutional preference for direct control over core operating assets. The railroad's operating culture has long recognized that sovereignty over the network—not financial engineering—is the true source of franchise strength.

The modern rail system remains constrained not by demand, but by the capacity and fluidity of its physical network. Where operational authority is divided, inefficiencies accumulate; where it is unified, traffic flows more predictably, assets turn faster, and service reliability improves. From this perspective, the strategic logic behind UP's interest in NS becomes clearer. It is less about immediate financial accretion than about long-term operational control.

The elimination of interchange boundaries, the alignment of dispatch priorities across a broader network, and the unified management of capital investment can strengthen the combined franchise in ways that are not captured by conventional merger models. Baruch's insight—that too many railroad names governing too few physical corridors weakens the system—remains as relevant today as it was a century ago.

Balanced against this operating logic is the STB's statutory obligation to preserve competitive access and protect shippers from the exercise of unchecked market power. The Board's modern merger standards, forged in the aftermath of the disruptive Conrail breakup and the cascading service failures following the UP/SP integration, reflect a deliberate bias toward preserving optionality for shippers—even where operational consolidation might promise efficiency gains.

The STB inherently recognizes that excessive concentration may leave captive shippers with diminished recourse when service falters or pricing power is exercised. Accordingly, any UP–NS combination must be judged not solely on its internal operating merits, but on its ability to demonstrate that system sovereignty does not come at the expense of network accessibility.

Baruch argued that too many railroads weaken the system; the STB's mandate, by contrast, is to ensure that too few do not weaken the shipper. The tension between those two imperatives—operational coherence and competitive balance—will define the Board's scrutiny of any future consolidation proposal.

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