

RAILROAD WEEK IN REVIEW

July 1, 2016

“The Canadian National Board of Directors has approved the appointment of Luc Jobin as a company director effective June 30, 2016. Jobin will become CN president and chief executive officer on July 1, 2016.” — CN press release

Here’s how Pennsylvania’s Nittany & Bald Eagle Railroad (part of the North Shore Group) dealt with a unique bridge clearance problem. The former Meade-Westvaco paper plant in Tyrone (now owned by a local investor group) and local to the NBER had bought a new \$2 million boiler to accommodate the switch to natural gas from coal. The new boiler came from Saint Catherine’s, Ontario on CN and forwarded by NS for final placement by the NBER. Todd Hunter, Director of Marketing for NBER, writes,

The boiler could not make the final leg of the trip from the NS/NBER interchange on the west side of Tyrone to the destination mill on the east side of town because of a narrow girder bridge on the NBER Main Line. The boiler, being wider than its flat car, would not clear the bridge girders, which were on the edge of the ballast line and higher than the car’s floor.

A local moving and rigging company that had helped the railroad in the past was called in. They decided the right move was to raise the boiler — while still on the car — high enough to clear the offending girders. Complicating the task was the fact that the siding to be used for raising the load had been out of service for ten years. Now comes a local track contractor to put it back in service. Only now could NBER take delivery of the car, park it on the rehabbed siding, raise the boiler, clear the bridge, and deliver it to the paper mill.

This collaborative effort shows once again how a local railroad can pull together local resources to meet a supply chain challenge for a local customer. Best of all, this is a *paper* mill, and we all know what’s been happening to that commodity group over the years. The Tyrone plant makes paper for the printing industry and uses the railroad to supply the raw material requirements.

It seems the Canadian railroads are no better off than their US counterparts in dealing with squishy freight transportation demand. The rails are more the backbone of Canadian freight than they are in the US, yet 57 percent of Canada’s population resides in just nine urban areas; 62 percent live in Quebec and Ontario. Thus it’s easy to understand why the Windsor/Quebec City freight corridor is Canada’s densest freight corridor. And favorable to inter-city truck moves.

On the other hand, much of the rest of Canada’s freight origin/destination pairs are more spread out, characterized by long lengths of haul and challenged by poor freight density. Manufacturing is concentrated in the provinces of Quebec and Ontario; the mining and agricultural industries

are largely located in western Canada. And yet, CN and CP are the two best-run North American rail networks that are lean, highly profitable, and relatively service-sensitive.

If I were CN and CP and had moves terminating in the lower 48, I'd want to transload as much as I could short of the border (or use the IC or Soo) to get better car turns (at one time Hunter said CN was car-hire positive because the US roads took so long to turn loads that came in on CN cars. And CN now embargoes customers that take too long to load/unload.)

I know of several lumber-receiving short lines that can do interchange/off in 3 days after interchange/on, then see cars languish for days before being reverse-routed to the origin road for another load. That's why the best-run short lines watch Class I behavior with empties very closely. Remember, the longer the car cycle the lower the contribution per day and the more you have to push up rates to recover the target contribution.

Through June 6, North American shortline and regional railroad year-to-date revenue units were off 4.8 percent, 418 names reporting. Intermodal, auto, and coal are not handled in significant vols on most short lines, so I back them out to get at the commodities that drive the fortunes of the typical feeder railroad. What's left I call merchandise carloads, off less than four percent YTD — roughly a point better than the all-in number.

Thru June 18, AAR North American total YTD rev units dropped 7.6 percent year-over-year. (GE RailConnect usually lags the AAR by two weeks.) Back out auto, intermodal, and coal to get at what most short lines live on, and manifest carloads are off 5.5 percent. Since the shortline merch carload number is off by a smaller percentage than the Class I number, one must conclude the non-Class Is are doing a better job of replacing what's out of favor (coal) with what's in favor (merchandise carloads on through trains hitting no class yards en route).

Short Lines				2016
Commodity	YTD 2016	YTD 2015	Delta	Pct Tot
Total Units	2,808,131	2,949,812	(4.80%)	100.00%
Intermodal	474,563	441,925	7.39%	16.90%
Auto	74,758	70,215	6.47%	2.66%
Coal	167,652	261,811	(35.96%)	5.97%
Merch carloads	2,091,158	2,175,861	(3.89%)	74.47%
<i>Source: GE Transportation RailConnect Jun 6</i>				
AAR Class Is		NA Rails		
Commodity	YTD 2016	YTD 2015	Delta	Pct Tot
Total Units	15,665,522	16,954,028	(7.60%)	100.00%
Intermodal	7,840,626	8,041,668	(2.50%)	50.05%
Auto	674,657	646,223	4.40%	4.31%
Coal	1,829,986	2,636,867	(30.60%)	11.68%
Merch carloads	5,320,253	5,629,270	(5.49%)	33.96%
<i>Source: AAR Weekly Rail Traffic Jun 18</i>				

Final take-away: Since virtually all shortline cars are in the Class I car counts, the fact that shortline merch carloads are off less than Class I merch carloads suggests that shortline first-mile/last-mile strength masks Class I weakness. If this is the case, then doesn't it follow that more boots on the ground covering more accounts will yield better merch carload results for the Class Is? Or perhaps the Class Is ought to get out of the way and let the short lines do even more branch-line customer development.

It's a given that the rapidly-evolving sharing economy is having and will ultimately have a significant impact on the various sectors of the freight transportation and logistics space. Intermodal and LTL lend themselves more readily to Uberization, if you will, than individual carloads on a railroad track. But I think there are Uber-like services railroads can adopt given their network density and ability to control capacity.

Non-Class I rails exist for the first-mile/last-mile carload business while their customers live in an increasingly Uberized world in their private lives. Having to put up with irregular and unreliable freight service in their professional lives has to be exasperating. The AAR service metrics for the second quarter through last Friday (above) show train speeds up and dwell times down, yet total revenue unit volumes continue to trend down, so something's still not right.

The ASLRRA channel checks among its membership reveal the lag between rate request and rate response remains troublesome. At the same time, the FEC tells me customers are taking favorably to the recently-introduced EZ Buy one-stop shopping website that has very much the same feel as buying a ticket on the Southwest Airlines website.

So even though the rails can't compete on the delivery side, they surely can do better in delivering rates. And short lines can be stronger customer advocates in fitting the rail rates proposed to the market. Perpend:

A recurring theme in WIR has to do with understanding customer supply chain dynamics. What your customer are paying to move a car of goods from A to B is critical; even more important is where his rates fall vis a vis other moves in the same commodity lanes. Take plain dimensional lumber, STCC 24 211, from south central Georgia to north central Pennsylvania.

One of my regular research tools returns a nationwide scatter chart of rates by STCC, car type, and miles. The lane in question is 1,000 miles and I'm using a railroad-owned center-beam. For the 1,000 mile move, sample rates range between \$4,000 and \$8,000. I'm taking the mid-point of \$6,000.

Now I go to my cost tables for the specific commodity OD pair, enter the average \$6,000 rate and determine the revenue-variable cost ratio (RVC) is about 1.7 — a reasonable number. If, on the other hand, my customer were paying \$8,000 in this lane, we'd know (a) that his rate is out of

line with the national waybill sample, and (b) that the RVC is 2.4 — and on the outer limits for that commodity and distance.

You'll be amazed at the raised eyebrows when you lay this out in front of a customer. And it gives him (or you) the opportunity to have a meaningful rate conversation with the Class I doing the pricing. All of which goes to my point that the more you know about a customer's supply chain, the better a transportation provider you can be.

Of course, the fixed-guideway box car has limitations no trucker or Uber driver ever faces. The fixed-network system isn't really designed for the kind of on-demand services that folks like J.B. Hunt do so well, and that's cost the rails millions of revenue units and \$billions in revenue. Such is the cost of an inflexible technology. That said, intermodal remains the best rail technology to respond to this flexible world. And tools like EZ Buy add even more flexibility.

I'm taking my usual July 4 break next week, so July 15 is the next WIR. Enjoy the long weekend and be safe out there.

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