

RAILROAD WEEK IN REVIEW

December 10, 2021

“During Alan Shaw’s tenure NS has increased shareholder value by more than \$30 billion, has implemented precision scheduled railroading, has been through a freight recession and global pandemic, and has brought company leadership together once again in a new, state-of-the-art Atlanta headquarters.” — Jim Squires, President & CEO, Norfolk Southern.

“I guess we’re still oil bulls. We’re noticing that inventories are dwindling. We’re noticing that spreads have pulled way back from the highs into support. We’ve noticed that there is not a tremendous spec length position to get washed out of the markets from here. And we feel like we’re trading a little bit in this twilight zone against the new COVID variant that we can’t see touch or feel, but we’re being told that we have to be prepared for.” — Tony Greer, TG Macro on Real Vision, December 6

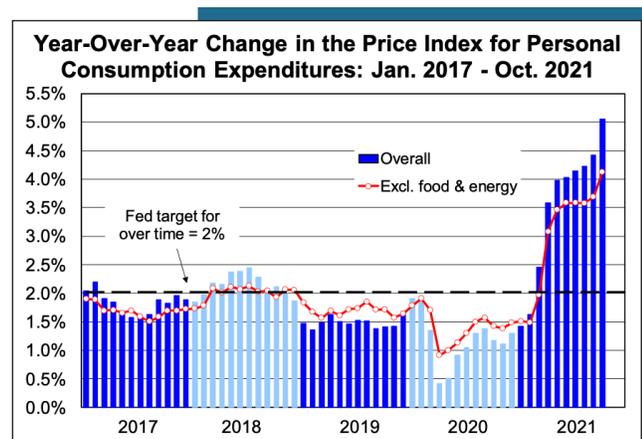
“The world’s underinvestment in oil and gas since 2014 — years in which international spending was 50 percent below historical norms — is leading global markets to an era of scarcity. For the first time in a long time, you’re seeing a buyer looking for a barrel of oil, as opposed to a barrel of oil looking for a buyer.” — Jeff Miller, CEO, Halliburton

I’m citing the oil concerns above because of the role oil plays in the price of everything. The December *Rail Trends Indicator* from the AAR cites inflation and supply chain matters right up front: “The two are related and it’s not clear when either of them will return to normal.”

The CPI measures the changes in the cost of a representative basket of consumer goods and services, but since inflation is a key concern of the Fed as it sets monetary policy, the “Price Index for Personal Consumption Expenditures,” or PCE is preferred.

The PCE uses a different basket of goods than the CPI and they differ in how they are calculated. Inflation measured by the PCE in October 2021 was five percent, a 30-year high.

I think this matters for short lines because their client base is mainly non-Fortune 500 firms and cost control weighs heavily. Fuel prices are part of the inflation hit and will affect the independent truckers the most. Attention must be paid.



Norfolk Southern promoting Alan Shaw to President and CEO-elect is an excellent decision. He was tapped to head marketing and sales in May, 2015, and on his watch as Chief Marketing Officer total revenue units have increased 42 percent to 5.3 million and merchandise carloads including auto increased 36 percent to 1,714 carloads. The 2021 Week 39 YTD merch carloads ex-auto and coal/coke increased in 15 of 17 commodity groups and — including auto — represented 32 percent of total revenue units.

Shaw’s predictions for 2021 were pretty much spot-on. This slide from the 4Q2020 earnings call presages the 2021 trends we saw YTD through October 3 (above), which tells me marketing has gotten more operating and finance buy-ins than one used to see at NS. I remember one NS planning staffer telling me engineering wanted to gold plate everything rather than let the track degrade to the service required. A marketing exec lamented that ops would rather sell off lines than build back the business base. Happily, I think times have changed.

2021 Growth Outlook

Well-positioned to capitalize on opportunities as economy recovers in 2021



Shaw has handpicked a group of experienced and well-qualified successors for the marketing leadership roles. Ed Elkins, vice president of industrial products, has been promoted to executive vice president and chief marketing officer. He knows the railroad from the ground up, having signed on as a locomotive engineer back in 1988. He has served as group vice president for chemicals and group vice president for international intermodal for the last two years.

James “Leggett” Kitchin, currently group vice president of domestic intermodal marketing and sales, will succeed Elkins as vice president of industrial products. Shawn Tureman, currently group vice president of industrial products/chemicals, becomes group vice president of intermodal and automotive effective immediately, succeeding Jeff Heller who retires March 1.

Writing for the *Trains* Newswire, Bill Stephens adds a fitting postscript to highlight Squires' many accomplishments:

Squires, a career NS man who served in law and finance positions before becoming chief executive on June 1, 2015, put his stamp on the railroad in several ways. In his nearly 6½ years at the helm, Squires led the railroad through a merger battle, the continued decline of coal, the transition to a Precision Scheduled Railroading operating model, and the COVID-19 pandemic.

While seeking to reduce NS's operating ratio to 65 percent and then 60 percent, Squires took significant steps to streamline the company, including paring its Triple Crown RoadRailer subsidiary, reducing the number of operating regions, moving dispatchers to a network operations center in Atlanta, consolidating Lake Erie coal docks, and shifting the NS headquarters to Atlanta from Norfolk, Va.

The railroad has idled the humps at six of its 10 classification yards, closed locomotive and car shops – including the historic Roanoke Locomotive Shop where N&W built its steam power – and shed more than a quarter of its employees, mostly through attrition. The railroad also reduced the size of its locomotive fleet, moving more tonnage in fewer but longer trains.

Squires also broke Norfolk Southern's tradition of promoting from within. Outsiders were named to key management positions, including chief operating officer, chief financial officer, and chief legal officer.

So thanks, Jim, for continuing and building on the NS tradition of leadership in the Class I railroad family. I have no doubt Alan will continue this theme of accomplishments in customer service, operations, and railroad finance.

RIP. Dick Hasselman, 95, former Chief Operating Officer of Conrail, retiring at the end of 1989. A life-long railroader, he began his career on the NYC in 1947 in operations, rising steadily through the ranks. Starting in 1968 he was VP-Transportation for the ill-fated Penn Central, and took the COO gig when Conrail was formed in 1976.

He surely knew his stuff. A dear friend who worked with him at Conrail writes, "I had many many debates with him over the years. He was a worthy combatant — the Crane-RBH partnership was unrivaled. As long as you were prepared and knew your stuff, it was a pleasure. If you didn't, beware!!" RIP, Dick.

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