The Blanchard Company
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The Railroad Week in Review Extra
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Week in Review comes out 50 times a year – Thanksgiving Week and Christmas Week are the two misses. However, a couple of items are worthy of note.

First, shortline carloads and commodities. Recall that in WIR for 10/18 we compared actual YTD carload commodity changes for class 2 and 3 railroads with the AAR's data for the North American class 1 roads. As expected, the growth in low-rated commodities was better on the shortlines than on their bigger brethren.

The other day a friend who's doing some work with the RRIF program reminded me of this table:

Commodity distributions by carload volume

AAR Commod Group	**STCC**	**Class I roads**	**Shortlines***	
Lumber & Wood	other 24	1.4%	18.0%	
Chemicals	28, 49	7.1%	16.0%	
Grain	0113, 01144	5.2%	14.0%	"Farm"
Food & Kindred Prods	other 20	2.1%	10.0%	"Food"
Pulp & Paper	26	2.1%	8.0%	
Waste & Scrap	40, 48	2.1%	8.0%	
All Other		1.1%	6.0%	
Stone, Clay, Glass	32	2.4%	6.0%	
Metals	33, 34	2.9%	4.0%	
Nonmetallic Minerals	other 14	1.8%	4.0%	
Petroleum	291	1.4%	4.0%	
Coal	11	32.5%	2.0%	
Crushed Stone, Sand	142, 144	4.2%	2.0%	
Motor Vehicles	371, 41118	6.0%	2.0%	"transp equip"
Primary Forest Prods	241	1.0%	2.0%	
Metallic Ores	10	1.2%	1.0%	
Coke	29911,3,4	0.8%		
Grain Mill Products	204, 20923	2.4%		
Other Farm Products	all other 01	0.3%		
Total Commodity		78.1%	107.0%	
Intermodal		21.9%		
Total Volume		100.0%		

* Source: www.shortlinedata.com

It's available through the "Frequently Asked Questions" page at www.aslrra.org and – with the exception of chemicals – reinforces the thesis even though STCC 01 and 20 details are lacking.

And that leads to the second point: that the shortline concentration of low-rated commodities means operating ratios are higher and net margins are lower. Go to the Benchmark page at www.rblanchard.com/resources and see the "average" shortline OR is in the mid-80s, the net margin is 8% and the ROA a minuscule 3%. Consequently cash flow is often insufficient to support any significant capital programs. The RRIF program is designed to fill this gap and the Benchmark tool can help the applicant with the financial reporting.

The ***Third Quarter Review*** is off to a good start. We've already e-mailed the 21-page PDF report to all categories of reader -- shortlines, class 1, and investor. New this quarter are complete carload-commodity breakouts for Canadian National and RailAmerica, thanks to the increased transparency of their reports.

As you know, the first *Review* ever –covering 2Q02 – was mailed *gratis* to the entire subscription list. Feedback was very positive:

> "*I take it everywhere I go." Owner of six midwest shortlines*
> "*Excellent work – very useful." Independent Investor*
> "*Send the Third Quarter Review when available." Class 1 Railroad*

Starting with the *Third Quarter Review* I'm asking $25 the copy for individual subscribers and $100 for corporate subscribers. Like WIR, it's in PDF format and corporate subscribers may distribute without limitation within their companies. At a later date it will be available to non-subscribers for $50.

Drop me a note and it'll be on its way. I will bill you at that time. No sense waiting for the check-issuing wheels to turn lest the timeliness be lost.

Roy Blanchard writes and consults on railroad commercial, financial and operating best practices for shortlines and shippers. Disclosure: Blanchard may from time to time hold long, short, debt or derivative positions in the companies mentioned here. A list of such holdings is available on request.