The Railroad Week in Review
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Thursday's DJIA close above 10,000 was an important milestone, to be sure. More important is what's going on behind that number. The daily NYSE Highs & Lows chart in the WSJ tells one where to find the market leaders and at the moment it looks good for the rails. Leading commodity groups are forest products (GP, Louisiana Pacific, Pope & Talbot), Coal (Arch, Peabody – I love this one's ticker, BTU), metals (Alcoa, USX), and chemicals (DOW, Rohm & Haas). Among rails BNSF and NS twice made new highs this week.

CSX held its 15th annual shortline meeting in Jax this week. Not only was CSX the first Class I to hold one, but also CSX was the first to have a formal mechanism for addressing mutual areas of concern (the "shortline caucus"). CSX also hosted the first shortline "trade show," made the first cash awards for traffic growth and industrial development, is the first to invite shortline reps to a National Sales Meeting, and is the first to set a time-defined goal for having ISAs in place. Moreover, CSX is taking a lead in shortline safety awareness and support to a degree I have not seen elsewhere.

Shortline business at CSX is up 5.2% yoy across the board. According the shortline survey, chemicals, forest products and metals generated the most new business, matching CSX commodity leaders in 3Q03. More than 70% of shortlines responding to the survey (total responses equal to about 75% of CSX shortline connections) said they had won new business with CSX thus far in 2003. In comparison with the other Big Six plus KCS, shortline marketing and sales support at CSX was seen as better than its peers, though the small samples on the Canadian and western roads skew the numbers.

That CSX gets good marks for commercial support of its shortlines is not surprising. There are more than 60 interline business plans in place with shortlines and more to come. Nearly 40% of shortlines submitted industrial sites for inclusion in the CSX data bank and half had sites shown to prospective customers by CSX reps. The ISAs are 95% complete against a goal of 100% at year's end. On the other hand, shortlines' regard for CSX operations fell short of the mark.

The Caucus Survey recorded less than satisfactory grades in car supply, transit time, and interchange performance. Not surprising, because these scores reflect the operating challenges faced by CSX this year. Car supply is affected by terminal dwells and average train speed, both of which have been off. Transit time is a factor of those two plus local train performance, loco and crew setbacks, and train starts. Interchange performance is directly related to the southerly drift in the Industrial Switching metric Wall Street has heard CEO Mike Ward talk about.

Operating challenges aside, commercial strength is the real key to recovery. And CSX has it in abundance. Total 3Q03 rail revenues increased 2.1% yoy (third among Class Is) and carload revenues upped 3.6% (tied with UP for second) yet CSX had the highest operating ratio by six full points. If a sales team can bring in that much business for a product that is under-performing, think what they can do with a product that really *sings*. That bodes well for everybody here.

Continuing the commercial thread for a moment, shortlines everywhere are doing more to bring business back to the rails. The CSX awards checks went to the Transtar's EJ&E and Lake Terminals and Pinsley's Florida Central and Florida Midland. Honorable Mention went to a number of roads, details at www.csx.com/?fuseaction=shortline.overview . The Nov 2003 *Progressive Railroading* features the DM&E, Progressive Rail, Indiana Railroad, the Great Western Ry of Colo. (Omnitrax), Finger Lakes (see also WIR 8/8/2003), and Puget Sound & Pacific (RRA). The common trait exhibited by the individuals behind these stories is the ability to translate a perceived transportation need into a deliverable railroad product.

The toughest part remains to be convincing the connecting Class I that such-and-such a new move is in everybody's best interest. The obstacles can be formidable. One turned down a shortline's new business request for more frequent service at the nearest interchange citing circuitous routing, and it was. Just getting to the serving yard required two of their train starts plus two shortline train starts and up to eight days to cover 100 miles.

The shortline countered that its local pulling cars from the origin plant could have them in the same serving yard 12 hours later (it goes there every day right now anyway) cutting three train starts and many days out of the route. The Class I responded by saying such a move changed the rate base and the computer pricing model doubled the rate. The good news is this $2 mm piece of business is "in negotiation." The bad news is that it should be in negotiation at all.

Shortline carloads for Nov 2003 were a mixed bag in terms of yoy results. I'm dropping same-railroad sales because, IMHO, emphasis should be on the yoy health of the enterprise. And besides, each railroad scores same store results and yoy comps differently anyway. It's bad enough they don't use the same commodity groupings throughout. Now if they'd at least flag STCCs then we could get apples-to-apples comps with the AAR Weekly Traffic Report. See three tables, attached.

Genesee & Wyoming squeaked by with a 155-unit gain over Nov 2002. Coal dropped by 2,900 cars thanks to generating plant maintenance. Absent that it would have been a 1,500-car gain. Note too that double-digit gains were posted in four of the five largest GWR commodity groups. RRA posted the stronger overall gain, up 5.4%, though two of the three double-digit gains came in the smaller commodity groups. Moreover, RRA separates bridge traffic that is largely the empty backhaul of auto racks – the largest single commodity group in sheer numbers. In 3Q03 however this segment contributed $5.6 mm in revenue, second only to coal at $6.1 mm, and 7% of all freight revenue.

Both sets of shortline data seem largely to support the AAR figures. For example, the entire STCC oh-one group is up double-digits in the AAR table and the shortlines have participated. Paper and chems are up to a lesser degree in both. But when it comes to STCC 20 finished foods and mill products we can't tell because the shortlines don't break 'em out the same way. Given the importance of shortlines to the CSX/UP Express Lane product (57% shortline origins) it would be good if they did. Perhaps the RRA "food" line does – appropriate for the Express Lane service coming off the Calif and PNW properties.

November 2003 Carloads

GWR Commodity	Nov-03	% Total	Nov-02	% Total	YOY % Ch.
Lumber & For Prods	4,335	10.2%	3,340	7.9%	29.8%
Farm & Food	3,883	9.1%	3,030	7.1%	28.2%
Mins & Stone	4,416	10.4%	3,942	9.3%	12.0%
Metals	5,006	11.8%	4,543	10.7%	10.2%
Pulp & Paper	5,856	13.8%	5,333	12.6%	9.8%
Petroleum	2,459	5.8%	2,392	5.6%	2.8%
Chemicals	1,839	4.3%	1,837	4.3%	0.1%
Intermodal (units)	389	0.9%	407	1.0%	-4.4%
Other	954	2.2%	1,056	2.5%	-9.7%
Automotive	1,210	2.8%	1,414	3.3%	-14.4%
Coal, coke & Ores	12,208	28.7%	15,106	35.6%	-19.2%
Totals	42,555		42,400		0.4%

RRA Commodity	Nov-03	% Total	Nov-02	% Total	YOY % Ch.
Met/mon-met ores	4,911	5.0%	3,832	4.1%	28.2%
Metals	7,428	7.6%	5,987	6.5%	24.1%
Ag and Farm	9,946	10.2%	8,255	8.9%	20.5%
Paper	8,127	8.3%	7,517	8.1%	8.1%
Bridge	16,486	16.9%	15,497	16.7%	6.4%
Food Prods	5,798	5.9%	5,515	5.9%	5.1%
Minerals	3,907	4.0%	3,761	4.1%	3.9%
Petroleum	4,008	4.1%	3,915	4.2%	2.4%
Other	2,496	2.6%	2,451	2.6%	1.8%
Coal	12,156	12.4%	11,946	12.9%	1.8%
Lumber & For Prods	9,957	10.2%	9,839	10.6%	1.2%
Chemicals	6,827	7.0%	6,967	7.5%	-2.0%
Intermodal (units)	2,903	3.0%	3,222	3.5%	-9.9%
Automotive	2,840	2.9%	4,087	4.4%	-30.5%
Totals	97,790		92,791		5.4%

AAR Week ending: **12/4/03**

AAR Commod Group	STCC	% of RR Traffic	4-wk Chg % carloads
Coke	29911,3,4	1.2%	35.4%
Other Farm Products	all other 01	0.3%	23.7%
All Other		1.1%	10.6%
Waste & Scrap	40, 48	2.2%	5.7%
Pulp & Paper	26	2.1%	4.4%
Stone, Clay, Glass	32	2.5%	4.0%
Grain	0113, 01144	5.2%	3.6%
Crushed Stone, Sand	142, 144	4.3%	1.9%
Chemicals	28, 49	7.0%	1.6%
Nonmetallic Minerals	other 14	1.8%	1.0%
Lumber & Wood	other 24	1.3%	-0.5%
Grain Mill Products	204, 20923	2.2%	-0.8%
Food & Kindred Prods	other 20	2.1%	-1.5%
Metals	33, 34	2.8%	-1.8%
Coal	11	31.5%	-2.6%
Motor Vehicles	371, 41118	5.8%	-2.7%
Primary Forest Prods	241	0.9%	-2.8%
Petroleum	291	1.3%	-3.0%
Metallic Ores	10	1.2%	-8.2%
Total Commodity		76.7%	1.0%
Intermodal		23.3%	6.8%
Total Volume		100.0%	2.6%