THE RAILROAD WEEK IN REVIEW

June 5, 2015

"We see continuing strength in the overall economy as well as opportunities in many of the markets we serve." — NSC Chairman Wick Moorman, NSC Annual Meeting

RRIF loans are alive and well again, says *Railway Age* Editor Bill Vantuono in a May 29 *Newswire* item. The FRA has just issued a $6.8 million RRIF loan to the Arkansas & Missouri for refinancing the 2013 purchase of three SD70AC locomotives. The FRA statement regarding the loan says it's taking steps to "strengthen the RRIF program by reducing the cost of obtaining a loan and making the program more accessible."

By way of review, writes Vantuono, the FRA "gives priority to projects that provide public benefits, including benefits to public safety, the environment, and economic development. As part of the President's Build America Investment Initiative, the U.S. Department of Transportation has established the Build America Transportation Investment Center (BATIC) to encourage the use of innovative financing tools such as RRIF." And the FRA says it has issued 35 RRIF loans totaling nearly $2.7 billion to date.

Canadian National is buying 200 more domestic, 53-foot, temperature-controlled containers to expand its "cold supply chain capacity," at a cost of C$20 million. Not surprising. CN was the first railroad to introduce highway-to-rail conversion of reefer service in trans-border markets so it's only natural for CN to add capacity. It appears CN will be using much the same technology UP has for its Railex client, including remote monitoring of interior container temperatures, and a dedicated reefer desk team.

Whereas the boxcar aficionados may decry the diversion from traditional carload reefers, the expansion gives CN a foot in the door it might not otherwise have had. Moreover, the same sales team that supports the boxcar side does intermodal, too. Which means CN customers have cleaner options than they would with separate intermodal and boxcar sales reps. Well done.

The Dow Theory posits that health in rail shares presages health in other industrial shares because "if manufacturers' profits are rising, it follows that they are producing more. If they produce more, then they have to ship more goods to consumers. Hence, if an investor is looking for signs of health in manufacturers, one should look at the performance of the companies that ship their output to their markets — the railroads. The two averages should be moving in the same direction. When the performance of the averages diverge, it is a warning that change is in the air." So says Wikipedia.

The *Dow Theory Letter*, published every three weeks since 1958, tells us in the May 27 number,

> Industrial output has been down five months in a row. The last two times the US saw at least three straight months of declining industrial output, the economy was in recession, or about to be. Quietly, the Fed and the government must be scared to death with what's happening. The idea of raising rates must be the furthest thing from the Fed's mind at this time.
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> Additionally, with the collapse in oil and gas prices, American consumers saw their expenses going down. Seeing the extra money in the hands of consumers, the Fed clapped its hands. Then came the shocker. Consumers defied the Fed's expectations. Instead of spending the extra money, as the Fed fervently hoped, consumers saved the money. Thus the collapse in energy and gas prices has yet to stimulate the US economy. With these setbacks in the economy, the odds of the Fed increasing interest rates has been put off until 2016 and maybe even further.

In other words, consumers aren't rushing to spend so manufacturers aren't rushing to make stuff nor are they filling up boxcars and intermodal containers with stuff to move to market. So AAR volumes and railroad car-counts are in a lull, causing investors to look elsewhere, sending share prices down. So far down, in fact, that every single name is at or below the 200-day average.

Moreover, Dennis Gartman, he of the eponymous *Gartman Letter*, commenting on futures markets June 1, cautions,

> Perhaps we take our lessons from the Old Guard taken up by our days in decades past when we were on the Chicago Board of Trade and we listened to these men we thought almost to be"philosopher/kings" there on the floor. We learned to pay heed to the term structures; we learned to follow volume; we learned that the first loss is the best loss… Perhaps we are to un-learn those lessons from the Old Guard, but they are lessons that have proven invaluable over time and it shall take a very, very long while to have them proven unwise.

And that's why I think paying heed to the Dow Theory and the charts prepare us best for some slow times in the railroad industry.

Norfolk Southern holds shortline meeting in Roanoke June 9-11. It'll be the last to be held in Roanoke before the marketing group relocates to Norfolk in the fall. (I'm hopeful the 611 will be steaming softly at the station for a fitting send off.) The program opens Tuesday with the usual golf and museum outings and evening reception.

The general meeting gets underway Wednesday with NS President Jim Squires discussing today's challenges and changes, a fitting segue to Alan Shaw, newly-tapped Chief Commercial Officer. Guest speaker John Chastek, EVP at the Wheeling, will share his thoughts on "re-inventing" the relationships between Class Is and short lines, followed by Christ Spiceland and Don Jones, of the NS Short Line Marketing group, on "A New Focus for Growth."

AVP Finance Trevor Pardee will do the numbers and Strategic Planing's Chip Meador will hold forth on the shortline implications of the recent D&H transaction with Canadian Pacific. Chief Operating Officer Mark Manion will talk about how NS is recovering its footing after the first quarter mis-steps, Rob Martinez will do his instructive BD and real estate update, and Bruno Maestri will provide the Washington Update. So much for the morning.

Now it's lunchtime and Wick's turn to kind of round out the morning's highlights and answer a few questions from the floor. With so much to talk about, from the slow economy's effect on NS and the continuing success in replacing lost coal traffic with all manner of merchandise carloads, there will not be a dull moment.

Following lunch, NS holds four hours of small-group break-out sessions, well-suited to the needs of short lines by helping them drill down further into specific areas of concern. Eight sessions are scheduled, including one each from all four major commodity groups, truck pricing, the ISA process, boxcar availability, a review of the Rail Industry Agreement, and more. The trade show follows,with its roomful of commodity managers and service providers.

Merchandise Marketing VP Mike McClellan and VP Transportation Terry Evans will double-team the dinner dais for what promises to be an invigorating talk on the merchandise carload sector, now 60 percent of revenue-ton-miles and 50 percent of revenue. My sense, based on the NS R-1 report, is NS short lines need to focus more on RTMs and revenue per RTM and less on sheer carload vols, and I would like very much if Mike and Terry touched on this thesis.

Thursday Morning is devoted to the Caucus Meeting and to individual break-out session, of which NS generally has arranged several hundred to meet the requirements of the 200-plus short lines represented at this gathering. This being the final Roanoke appearance of the NS shortline meeting, the theme is, appropriately enough, "Finale in the Valley." Let's do it proud.

Week in Review is a day early this week as we're taking our usual Blue Ridge Mountains holiday around the NS shortline meeting. We won't be back until the the following week, so there will be no WIR for June 12. Then June 17-18 I'm in Chicago for the *Railway Age Insights* conference. On Day Two, my panel will feature interviews with four shortline friends, whom I've known for 20 years or more, on such themes as unappreciated risks, lessons for newcomers, and business strategies. No PowerPoints allowed. WIR June 19 reveals all.