THE RAILROAD WEEK IN REVIEW
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"Intermodal has now fully come of age as an accepted mode of transport." — Tony Hatch, "Ten Years After: The Second Intermodal Revolution,"January, 2014

Sometimes I think intermodal is the appropriate shortline model, not inter-line carload. Consider: Feeder railroads deliver loads and empties to customers by the car; intermodal service providers deliver loads and empties by the container. Feeder railroads receive and deliver batches of cars at specific interchanges and intermodal providers receive batches of boxes at specific Class I intermodal facilities. And both provide a true first-mile, last mile service for the long-haul Class I.

Feeder railroads are paid by the Class Is on a fixed-fee per box basis, except where there is an interline settlement relationship. Drayers are paid by intermodal service providers on a per-box basis. Short lines, like intermodal service providers, access markets and customers that the Class Is may have written off years ago. Says Hatch,

> We startled observers a decade ago by noting that the central cog, railways, would soon feature intermodal as their largest commodity segment. This meant re-penetrating finished and value-added goods markets most thought had been long abandoned to the highway and moving away from being merely bulk carriers of raw or semi- finished materials.

Today, short lines and regionals largely serve markets the Class Is vacated. Recall the classic pre-Staggers short line was an under-capitalized and locally-owned operation swapping loads and empties with a single Class I at a remote location. Now, however, some 550 non-Class I rails touch roughly a fifth of all carloads across all commodity lines, with perhaps half those names under multiple-road operators like Genesee & Wyoming, Watco, Gulf & Ohio, OmniTrax and the Pinsly Group.

The AAR says intermodal boxes now account for nearly half of all US Class I revenue units (NS has broken the 50 percent mark); at the end of 2010, intermodal accounted for less than 44 percent of all US Class I revenue units. In other words, intermodal has grown to the point where nearly half the units moving over US Class Is have third-party fingerprints all over them, once the loads leave the core system. Add the non-Class Is and nearly three-quarters of Class I revenue units have somebody else's finger prints on them at origin, destination, or both.

Proof that the intermodal model works lies in the fact that it's the fastest-growing segment of the Class I portfolio of service offerings. Could short lines do likewise? The so-called shortline handling line model that has the Class I paying a fixed per-car fee irrespective of commodity is the same as the intermodal model: drayers get the same fixed fee per box without regard to what's in it, the only difference being who's writing the checks. Might the feeder line family grow vols faster under the intermodal model?

Thus the argument comes full circle. The Class I intermodal departments, not the commodity marketing departments, ought to manage the feeder line program, while leaving commodity pricing where it is. Moreover, feeder lines ought to be free to offer intermodal as well as carload services to their customers. In this way, feeder railroads can offer a full spectrum of rail-based service offerings and thus strengthen their supply-chain relationships with their customers. And maybe grow at a rate approaching intermodal and surpassing carload.

Railroad traffic volumes are going nowhere, and the economy's to blame. The Wall Street Journal's Eric Morath wrote on Thursday

> Six years into the recovery, the U.S. economy remains in a rut. Growth has failed to achieve much more than a 2% pace since the recession ended in June 2009. Each time the economy revs up, it is upended by a significant slowdown. That happened again in the first quarter, when the economy contracted at a 0.2% annual pace, according to revised Commerce Department data released Wednesday.
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> Many economists project a solid second-quarter rebound, with the economy growing at between a 2% and 3% rate, to be followed by a second-half pickup. But even that acceleration would put 2015 on a pace that looks a lot like the previous three years.

Morath suggests that even with stalled growth, "activity is bubbling beneath the surface," though while an improved labor market may support consumption, drags from an uneven global economy and a retrenching U.S. energy industry have a dampening effect. In other words, the Dow Theory is alive and well: you don't ship raw materials when there is nothing to sell.

AAR revenue units through Week 24 (June 20) were unchanged year-over-year at 17 million units, yet merch carloads (everything but intermodal, coal and automotive) declined 84 basis points. Forest products (paper and lumber), chemicals (STCC 28 only), and petroleum products (crude oil and NGLs) were the only commodity gainers; overhead traffic ("other" on the table below) also gained.

Short lines, switch carriers and regional rails saw total revenue units skid nearly five percent, according to GE Transportation's RailConnect Index compiled from 421 roads reporting. Ag products ex-grain (processed edibles from soy meal to sweeteners to beer to frozen vegetables), aggregates, and chems (industrial plus ferts, no NGLs) posted slight gains; all other commodity lines were flat to down. "Other" (mostly overhead) gained two points.

Merchandise carloads account for roughly three-quarters of all non-Class I revenue units; STCC 28 chemicals, aggregates, agricultural products, lumber and paper account for roughly 80 percent of total Class II and III railroad merch volume. Yet none of these are posting gains more than a point or two, another sign that marginal short lines will be challenged to sustain the cash flow required to keep the doors open.

Short Lines				2015
Commodity	YTD 2015	YTD 2014	Delta	Pct Tot
Total Units	3,285,108	3,441,776	(4.55%)	100.00%
Intermodal	491,853	485,003	1.41%	14.97%
All Carloads	2,793,255	2,956,773	(5.53%)	85.03%
Auto	87,099	79,075	10.15%	2.65%
Net	2,706,156	2,877,698	(5.96%)	82.38%
Coal	280,988	366,645	(23.36%)	8.55%
Carload	2,425,168	2,511,053	(3.42%)	73.82%
AAR Class Is	NA Rail Traffic			
Commodity	YTD 2015	YTD 2014	Delta	Pct Tot
Total Units	16,950,429	16,950,429	0.00%	100.00%
Intermodal	8,036,332	7,779,169	3.20%	47.41%
All Carloads	8,914,097	9,171,260	(2.80%)	52.59%
Coal	2,637,939	2,867,440	(8.70%)	15.56%
Net	6,276,158	6,303,820	(0.44%)	37.03%
Auto	1,002,889	985,840	1.70%	5.92%
Net Merch CL	5,273,269	5,317,980	(0.84%)	31.11%
Source: GE Transportation RailConnect Index, AAR Week 24				

Weekly operating performance trends are a mixed story. Quarter-to-date train speeds and yard dwell times across the Class I spectrum are improved by five and four percent respectively, though NS and KCS continue to lag the averages in both categories. (I don't do Cars-on-Line as the best way to reduce this number is to drive off all the customers.) On the other hand, NS showed analysts at the recent UBS Transport Conference how both measures have improved sequentially since January and in this case the trends are more meaningful than static annual comps.