RAILROAD WEEK IN REVIEW

February 9, 2018

HappyOrNot is satisfying because you can use it effortlessly and anonymously, without condemning yourself to a lifetime of targeted ads, and without adding still more monetizable information about yourself and your family to the world's exponentially growing online hoard of permanently lost privacy. — New Yorker, February 5

A recent note from Stifel & Co. says new truck orders are posting record highs and most likely the improving economy will keep the orders coming. Their research shows January orders for 48,700 Class 8 trucks, more than double the prior-year level and the second highest monthly total ever — only behind March 2006. Medium duty demand was strong as well, with 31,700 Class 5-7 trucks ordered, the third highest month on record.Meanwhile, GE exits the new loco biz and railroad car builders aren't exactly turning orders away.

I've remarked before about the rails being in a Going Out of Business Mode. And channel checks still reveal Class Is pushing away carload revenue because it doesn't meet internal guidelines. That said, I think there are ways to divert biz away from the recalcitrant Class Is where an alternative lurks in the wings.

Now comes Jason Seidl of Cowen & Co to say the railroad shippers in their survey expect to increase rail usage by less than 3% this year and pay more than 3% more for doing so. His interview sample represents rail users with annual spends north of $13 billion, so we're not talking pocket change here. He adds,

> Quarterly rail volume growth has a 0.78 correlation with US GDP growth. Therefore, we think it's worth keeping an eye on with respect to the current state of the economy. 2017 volumes were up about 4% and are currently flat YTD. Intermodal and frac sand shipments have been strong YTD while motor vehicles and coal have been weak.

Jason's been tracking shippers' 12-month expectations for their railroad volume growth over the last seven years. The trend is clearly down, from up 7.7% at the end of 2010 to up 2.7% at the ends of 2017. Moreover, Jason shows that shipper expectations of rate increases have remained essentially flat at 3%+ over the same period.

This tells me two things: that shippers use as little rail as they can and that Class I operating earnings gains are largely driven by rate increases. The only way we can increase railroad revenue units is by going out there and asking for orders. Short lines prove their mettle at this every day. So why do we keep hearing about Class I market managers pushing away new shortline carloads?

Here is a CSX map from their 1Q2014 Financial Review. It was the last time they published a map of what they considered their "core" system: A big triangle with many feeder lines in the middle. You can trace the colored lines: Jax-Chi via Nashville, Evansville; Chi-Selkirk via Willard, Cleveland; Selkirk-Jax via Greenwich/Phila, Richmond, Charleston, Jax, bypassing Florence.

You've all seen the list of CSX lines "under review" in *Trains* magazine, and I touched on a number of them in last week's newsletter. Suffice to say, they mostly fall in the "spaghetti bowl," and now that the coal business has fallen off so dramatically, much of the Coal Network must be "under review" as well. The time is nigh to sharpen pencils and wish lists.

This week's New Yorker has a feature on a new company that can measure customer satisfaction, instantly, on the spot, with no effort on the part of the customer. This is the HappyOrNot button, one of four on freestanding battery-powered terminals — dark green and smiley, light green and less smiley, light red and sort of frowny, dark red and very frowny.

The idea is that a customer mashes one button after completing — or not completing — a transaction. Examples range from service at a convenience store to airport security processes to stadium food and drink stands at a football game. The responses are anonymous and time-stamped, and, at the game, they recorded twenty thousand fan responses—about the same as the total number of surveys that fans had returned during the whole of the previous year.

Now imagine a HappyOrNotHappy button linked to every railroad rate request. With time-stamps one could tell who was called when and which kind of button was pushed at the end of the call or while running an app on an iPhone. Railroad managers could then relate button responses to carload volumes, on-time arrivals, at-dock performance, or any place there is a customer-railroad employee interaction. How do you think we as an industry would do?

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