

# RAILROAD WEEK IN REVIEW

October 2, 2020

*“We have a bias for growth at BNSF. We are very closely tied to the industrial and consumer economies. Inherent in capturing growth opportunities is having a competitive cost structure. Doing so lets you say Yes to new customer initiatives. That’s the model we’ve used in the past and will continue to use going forward.” — Katie Farmer, BNSF President-elect, CNBC, Sep 25*

*“The addition of the SIT yard and the EJSR railroad will provide our current and new customers access to additional rail capacity as well as enhanced services to improve their overall supply chains. Adding services like SIT and transloading in a large market such as Chicago provides significant value to our customers” — Doug Conway, VP Sales, Watco, Sep 28*

*“The bull market run for soybean prices has hit a speed bump, as a recovery in the US Dollar and producer selling pressure ahead of the harvest, has sent prices back below \$10 per bushel in the front month November futures. Soybean prices have rallied over \$1.50 per bushel since the middle of August, as renewed Chinese buying of US soybeans and a selloff in the dollar triggered renewed buying interest by commodity funds in the grain complex.” — Mike Zarembski, Charles Schwab futures, Sep 30*

**The recent round of analyst presentations** provided some insight on how the Class I's have dealt with the recent slowdown and where they expect to go from here. Norfolk's Jim Squires highlighted the closure of four hump operations “in Year One of TOP-21.” Head-counts and in-service locomotives are down 20+ percent, train speed is up and terminal dwell is down, all yielding more resilient train scheduling and added track capacity.

Scott Group at Wolfe Research says NS “continues to have the lowest margins with the most room for potential margin improvement.” He adds his opinion that the progress noted on the call “sets up NS for really strong operating leverage and incremental margins next year as revenue inflects positive against very easy comps.” As an aside, NS revenue units are still depressed year-over-year — down 12 percent year-over-year; merchandise carloads including auto lag last year by 16 percent.

Elsewhere, UP President Lance Fritz says third quarter revenue units to date are down six percent with industrial carloads down 16 percent. The biggest merch decliners are aggregates/sand, metals, and petroleum. Daily miles per car, terminal dwell, and trip plan compliance all improved year-over-year.

Suffice it to say that as you unpack the particulars from the recent conferences, you will find trends and tidbits that will be useful in managing your Class I franchises going forward. I still think the carload trend is more toward bulk and away from manufactured SKUs. I see two advantages here: less time-sensitivity between OD pairs and a trend toward increasing reliance on leased equipment — no car hire or demurrage on private tracks. Color me newly encouraged.

**Watco is creating a new** Illinois short line, the Elwood Joliet & Southern Railroad (EJSR), formerly the EJ&E “Phoenix Line” into downtown Joliet on the west side of the river. According to the STB filing, FD 36438, it will be a “lease and operate” agreement. (Watco’s Stefan Loeb writes, “The line is named after a former railroad-served horseshoe foundry, Phoenix Horseshoe Company!!!”). It should be noted that the press release references the property as “Wisconsin Central’s Phoenix Line” because CN had rolled the north end of the Jay into its Wisconsin Central ownership.

The purpose of the transaction is to allow Watco to acquire a former Railway & Industrial Services property near Joliet. Watco plans to repurpose the property, formerly a mechanical repair shop, into a storage and transit (SIT) yard and provide switching services to the new facility and the adjacent customers. Operations will begin on the line pending STB approval.

Watco will be investing in infrastructure upgrades to the property, which will be an important asset to area companies, primarily in the plastic and chemical industries. The 39-acre yard will provide forward storage of crucial plastic, chemical, and other bulk inventory as well as access to the extensive Chicago rail network. Construction of the SIT facility will start soon.

I should add that Watco, the most active shorting operator on Twitter, tweeted September 30, “We’re pleased to welcome the Elwood Joliet & Southern Railroad (EJSR). The Crest Hill line and its 39-acre storage yard will provide crucial forward storage for the plastics and chemical industries and connectivity to Chicago’s rail network.” And there’s even a new EJSR hat.



**Oklahoma’s Kiamichi Railroad (part of GWR) has won** a \$10 million federal grant to upgrade the railroad, according to a *Railway Track & Structures* newswire item. The shortline operates 200 track-miles in southeast Oklahoma plus 30-mile segments in Arkansas and northeast Texas. Coal, lumber, minerals, stone, pulp/paper are the principal commodities. The recent annual car-count is around 60,000, roughly 200 cars a mile.

The project provides for replacing about 23 track-miles of rail, rebuilding 15 turnouts, reinforcing 31 bridges, resurfacing 17 miles of curves, and retiring another 13 track-miles. Most important, the railroad will be upgraded to FRA Class 2 for 25 mph and certified for 286.

The line was originally a Frisco branch that Burlington Northern absorbed in 1980. Jack Hadley controlled the line from 1987 to 1995, when he sold to StatesRail. RailAmerica bought StatesRail in 2001 and Genesee bought RailAmerica in 2012. Yet even with all these changes, the railroad has performed well. BNSF selected the Kiamichi as its 2018 Shortline of the Year.

**UBS rail analyst Tom Wadewitz** has raised his prices for shares of all the publicly traded North American Class I railroads, citing volume growth in 3Q2020 and beyond. Could be a push. AAR total revenue units for Week 39 quarter-to-date through week 39 are down eight percent with merchandise carloads down 11 percent.

Of concern to short lines, aggregates and metals are down more than 20 percent each. Given that Week 39 ended September 26 and the quarter ended just four days later, it seems to me that week 39 is as good a proxy for Q3 results as we are going to see until early season begins in about two weeks. *Table courtesy of Bascome Majors, Susquehanna Financial Group.*

**TOTAL U.S. CLASS I RAIL TRAFFIC SUMMARY – ORIGINATED CARLOADINGS (Y/Y % CHG. EXCL. % OF VOLUME)**

U.S. Class I Rails September-26-2020	% of Volume	2019 Q3	2019 Q4	Annual 2019	Q1	2020 Q2	Q3-TD	Annual 2020-TD	Last 4 Weeks	Week 39
Trailers	4.2%	(18.9%)	(23.2%)	(14.9%)	(25.3%)	(13.8%)	11.5%	(10.1%)	13.9%	14.6%
Containers	50.0%	(4.5%)	(6.6%)	(4.1%)	(7.0%)	(12.5%)	1.9%	(5.8%)	6.6%	4.7%
<b>Total Intermodal</b>	<b>54.2%</b>	<b>(5.8%)</b>	<b>(8.2%)</b>	<b>(5.1%)</b>	<b>(8.6%)</b>	<b>(12.6%)</b>	<b>2.6%</b>	<b>(6.2%)</b>	<b>7.2%</b>	<b>5.5%</b>
Coal	12.3%	(9.5%)	(15.7%)	(9.0%)	(16.2%)	(37.8%)	(26.8%)	(27.0%)	(24.8%)	(27.2%)
Grain	4.6%	(7.7%)	(5.0%)	(5.7%)	(6.0%)	(5.7%)	4.4%	(2.5%)	25.9%	39.4%
<b>Total Bulk</b>	<b>16.8%</b>	<b>(9.1%)</b>	<b>(13.5%)</b>	<b>(8.3%)</b>	<b>(13.9%)</b>	<b>(30.6%)</b>	<b>(20.3%)</b>	<b>(21.7%)</b>	<b>(15.3%)</b>	<b>(14.8%)</b>
Chemicals	6.6%	(0.4%)	(2.1%)	(0.7%)	3.2%	(12.8%)	(5.5%)	(5.1%)	(6.0%)	(8.7%)
Petroleum Products	2.4%	4.8%	1.1%	12.2%	3.6%	(25.1%)	(15.2%)	(12.4%)	(11.9%)	(14.2%)
Stone, Sand & Gravel	4.0%	(6.1%)	(7.7%)	(8.2%)	(9.9%)	(20.2%)	(23.7%)	(18.3%)	(21.1%)	(18.7%)
Forest Products	2.0%	(7.2%)	(5.4%)	(4.5%)	(2.9%)	(10.4%)	(6.1%)	(6.4%)	(3.6%)	(5.3%)
Metals & Ores	2.2%	(8.4%)	(9.5%)	(5.4%)	(3.1%)	(37.1%)	(26.4%)	(22.2%)	(16.2%)	(16.9%)
Motor Vehicles	2.6%	(1.9%)	(5.6%)	(3.0%)	(6.8%)	(65.4%)	(1.2%)	(25.2%)	2.4%	3.3%
All Other Merchandise	9.2%	(2.2%)	(4.1%)	(2.8%)	2.1%	(9.1%)	(6.4%)	(4.5%)	(2.3%)	(4.4%)
<b>Total Merchandise</b>	<b>28.9%</b>	<b>(2.8%)</b>	<b>(4.5%)</b>	<b>(2.4%)</b>	<b>(1.0%)</b>	<b>(21.5%)</b>	<b>(10.7%)</b>	<b>(11.2%)</b>	<b>(7.5%)</b>	<b>(8.6%)</b>
<b>Total Traffic</b>	<b>100.0%</b>	<b>(5.6%)</b>	<b>(8.2%)</b>	<b>(5.0%)</b>	<b>(7.4%)</b>	<b>(18.7%)</b>	<b>(5.7%)</b>	<b>(10.6%)</b>	<b>(1.3%)</b>	<b>(2.3%)</b>

*The Railroad Week in Review, a compendium of railroad industry news, analysis, and comment, is sent as a PDF via e-mail 50 weeks a year. Individual subscriptions and subs for short lines with less than \$12 million annual revenue are \$175. Subscriptions for Class I railroads and shortline/regional operators with more than \$12 million annual revenue are \$600 per year. To subscribe, click on the Week in Review tab at [www.rblanchard.com](http://www.rblanchard.com). © 2020 Roy Blanchard*