RAILROAD WEEK IN REVIEW

December 4, 2020

The BNSF network is currently running well with no major service interruptions. Car velocity was up versus the previous week as well as versus the average for October. Average terminal dwell increased slightly but remains steady with last month's level. We also reported the highest weekly volume of the year to date (week ending November 14) at nearly 205,000 units. This is the fourth week in 2020 where total volume on the network exceeded the robust 200,000-unit level, which have all occurred in the past six weeks. — BNSF Industrial Products Network Update for Friday, November 2020

"The Canadian National Winter Plan does two things. First, it outlines the challenges CN faces operating in Canadian winter conditions. And second, it sets out the actions and innovations we have implemented to enable us to maintain our operations through the winter at a level acceptable to the needs of all our customers while ensuring we continue to operate in a safe and efficient manner. It serves as a framework to ensure we meet the needs of our customers and stakeholders in the challenging winter months ahead." — www.cn.ca, November 2020

"Pennsylvania's North Shore Railroad is working to develop a site along Route 11 just east of Northumberland for a customer who will bring 10 to 15 new full-time jobs to the area. The former PennDOT rest area was purchased in 2019 by North Shore, now working with LIVIC Civil Engineering to develop the site." — Danville News, November 20

AAR North American revenue units for Week 47 ending November 21 totaled 335,882 carloads, down two percent compared with the same week last year, and 393,779 intermodal units, up 12 percent compared with last year. Total combined weekly rail traffic in North America was 729,661 carloads and intermodal units, up five percent. North American revenue units YTD was 30.6 million units, down eight percent. Total Week 47 NA carloads and intermodal boxes were off eight percent vs. a year ago.

AAR NA Class Is	2020	2019	Change	2020 Pct Tot
Total Carloads	14,609,182	16,611,407	(12.1%)	47.69%
Intermodal	16,026,513	16,622,622	(3.6%)	52.31%
Total Rev Units	30,635,695	33,234,029	(7.8%)	100.00%
Auto	950,995	1,224,027	(22.3%)	3.10%
Coal	3,019,079	4,021,404	(24.9%)	9.85%
Merch Carloads	10,639,108	11,365,976	(6.4%)	34.73%
Source: AAR				

Merchandise carloads came down six percent and represented just over a third of all revenue units. Within merchandise, grain was up 15 percent and forest products (both STCCs) increased 12 percent. All in, merch lost half as much as the carload sector inclusive coal and auto.

CSX said on Monday that they have signed a definitive agreement to acquire New England's Pan Am Railways. There has been no comment on price; however, the number $700 million keeps popping up. The Street will have a field day second-guessing the exact number, especially since the future of the Pan Am Southern 50 percent joint venture with NS[1] is unclear.

When word of a possible transaction first leaked out two weeks ago, I wrote (WIR Nov 13), "Pan Am Rail has worked diligently to convert the former B&M/MEC from a property largely reliant on the paper industry to one supporting the expanding manufacturing and distribution network of companies from central Massachusetts to northern Maine. Customers have single line access to both NS and CSX, which keeps rates down, dependability up, and lets PAR service design find the best fit for the Class I partners."

As one might expect, the press releases and other sources quoted the key players: CSX CEO Jim Foote, CSX Chief Marketing Officer Mark Wallace, and Pan Am Rail President David Fink. The common thread among all is service quality and customer care. Excerpts:

Mark Wallace writes to to CSX customers that the end-to-end acquisition "will increase the competitiveness of CSX's rail service with trucks by expanding single-line rail service across a larger CSX network… We look forward to connecting with you about the potential growth opportunities made possible by the Pan Am acquisition."

Jim Foote in the press release says that as a result of the transaction, "CSX gains a strong regional rail network in one of the most densely populated markets in the U.S., creating new efficiencies and market opportunities for customers as we continue to grow. We intend to bring CSX's customer-centric focus and industry-leading operating model to shippers and industries served by Pan Am. We look forward to integrating Pan Am into CSX, with substantial benefits to the rail-served industries of the Northeast, and to working in partnership with connecting railroads to provide exceptional supply chain solutions to New England and beyond."

David Fink in his letter to employees, "There will be no immediate changes. The transaction will be filed with the STB by Jan 1. The STB will then determine whether the transaction will proceed on a six-month timeline, a year timeline, or somewhere in-between. During time we will continue to grow our business and provide great service to the customers we have."

Any way you look at it, the transaction is a neat tuck-in for CSX, and, with their economies of scale, I expect to see more PAR capital improvements and increased margins on traffic moving between the two roads as well as business that is local to PAR. The future bodes well for both CSX and Pan Am Rail.

[1] My preference would be for CSX to buy out NS' interest and keep it clean.

There is a monthly shortline commodity list at railinc.com and it closely mirrors the weekly AAR commodity reports for the class Is. Here's October's:

Carloads, by commodity	Carloads Originated October 2020	Carloads Originated October 2019	% Change	% total
Chemicals	51,126	50,847	0.5%	23.8%
Grain	34,859	25,740	35.4%	16.2%
Crushed Stone, Sand and Gra	19,942	28,627	-30.3%	9.3%
Pulp, Paper, and Allied Produc	17,083	18,972	-10.0%	7.9%
Metals and Products	16,064	16,911	-5.0%	7.5%
Stone, Clay and Glass Product	15,657	15,356	2.0%	7.3%
Coal	14,528	18,829	-22.8%	6.8%
Food and Kindred Products	11,260	12,177	-7.5%	5.2%
Waste and Scrap Materials	11,030	9,935	11.0%	5.1%
Lumber and Wood Products	9,417	9,436	-0.2%	4.4%
Grain Mill Products	7,668	7,578	1.2%	3.6%
Metallic Ores	2,717	2,632	3.2%	1.3%
Petroleum Products	2,152	2,345	-8.2%	1.0%
Nonmetallic Minerals	1,649	2,712	-39.2%	0.8%
Total	215,152	222,097	-3.1%	100.0%

You can access the Railinc shortline commodities report at the railinc.com opening page. Just use the search feature in the upper right (just under railinc.com customer login). Enter "carloads originated 2020" for a list of report web pages. This carload report is at the top of the list. (I have omitted the lines for Automotive, Intermodal, and All Other because they are not meaningful for most Class III railroads trying to capture the average shortline mix.)

The Port of Saint John has become a reality for CP, further supporting the CMQ acquisition as a strategic move. On Wednesday the railroad and and Hapag-Lloyd announced the extension of their rail service agreement to the end of 2025. Hapag-Lloyd will begin regular service starting in 2021. Using Saint John gets CP about a 200-mile advantage over CN into Montréal, Toronto and Chicago. Says CP President Keith Creel, "We are only just starting to unlock the potential that exists at the Port of Saint John."

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