RAILROAD WEEK IN REVIEW

February 12, 2021

"In terms of rail pricing, our paper and packaging contact is seeing consistent rail rate increases of 3-5 percent with annual contracts spread throughout the year. This shipper generally sees higher rate increases on traffic in the East because he's captive NS but dual-served in the West by BNSF and UP." — Scott Group, Wolfe Research, Feb 5

The correlation between housing starts and railroad carloadings of lumber has been much weaker in the past couple of years than it has been for many years. Yet the Census Bureau recently reported that 2020 had the most housing starts since 2006." — AAR Rail Time Indicators, Feb 5

"If new orders are rising slower than inventory, companies are going to need to produce less because they just have too much inventory relative to the new orders that are coming in. Right now they have no inventory relative to too many new orders, which gives you an idea that over the next couple of months their production is going to really have to ramp up." — Eric Basmajian, EPB Macro Research

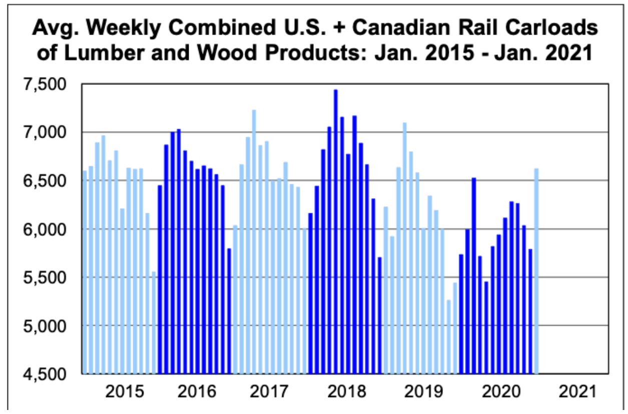
"Cars continue coming out of storage and revenue carloads are also improving. Grain remains the strongest category, with grain carloads up 40% YoY last month. If you exclude grain and coal, carloads are actually down by 2.7%. Still, covered hoppers and tank cars together represent 67% of all of the railcars in storage." — PFL Storage Report, Feb 8

It is my understanding that kiln-dried softwood lumber weighs 1,600 to 2,000 lbs per thousand board-feet (mbf). That being the case, a center-beam flat can take 100 bundles of 1,000 mbf. Lumber industry forecasting services had been saying prices ought to be stabilizing in the $5-600/mbf range. It appears the prices are going the other way — to $800-1,000/mbf. And what goes up can come down.

Reasons for the high price center around the pandemic and the economics of sourcing. Long railroad transit times mill-to-lumberyard mean lumber bought FOB origin can drop in price during transit. At the extreme, lumber priced $1,000/mbf at the mill drops to $500 at destination over ten days transit time.

Five hundred a thousand times 100 mbf on the car means a $half-million loss to the buyer. (It works the other way, too. If the mill sells 100 mbf packages for $500 each and the price goes to $1,000, they're out half a grand.)

If the buyer uses a truck that takes two days, the inventory devaluation is a lot less. No wonder AAR carloads of STCC 24 are going nowhere. The Feb 5 Rail Time Indicators says STCC 24 carloads[1] were at their lowest since 2012.



So you see, rates are but one consideration in modal choice. The per-day value of inventory — per mbf, per ton, per bushel, whatever — is a significant factor. Something to think about. Ask your STCC 24 customers what *they* see. [Illustration from RTI. See trend from 2016 peak to 2020 peak.]

The PFL cars in storage report cited above says further that a majority of the cars coming out of storage are covered hoppers and tank cars, which is not surprising given that grain and industrial chems are the leading commodity groups in terms of year-over-year volume growth. Numbers of flats and open-top hoppers going into storage have increased. Here's the break-out.

North American Freight Cars in Storage by Major Car Type
(as of January 1, 2021)

Car Type	Primary Commodities	Total Cars In Service	In Storage	Percent In Storage	Percent of Stored Cars
Box	Paper products, wood products, food prod.	100,847	17,149	17%	4%
Covered Hoppers	Grain, chemicals, nonmetallic minerals	569,683	136,895	24%	33%
Flats	Containers, trailers, lumber, steel, autos	74,560	21,218	28%	5%
Gondolas	Coal, nonmetallic minerals, metals, scrap	199,588	52,674	26%	13%
Hoppers	Coal, metalic ores, nonmetallic minerals	124,138	40,600	33%	10%
Intermodal	Containers, trailers	73,619	6,402	9%	2%
Refrigerator	Food products, farm products, chemicals	10,555	3,090	29%	1%
Tanks	Chemicals, petroleum, food products	439,266	126,732	29%	31%
Vehicle Flat	Autos	65,099	4,529	7%	1%
Grand Total		1,657,355	409,289	25%	100%

Source: Association of American Railroads

In other words, a quarter of the "active" car fleet is in storage and not available for loads. A third of all covered hoppers and 29 percent of all tank cars are in storage, so demand can't be all THAT great. And so I reiterate, as single-carload moves dwindle, resources are being shrunk accordingly to accommodate this new model of RR ops -- more long-distance hook and haul, fewer first mile/last mile way freights.

[1] The AAR combines U.S. and Canadian carloads for this category because much of the lumber consumed in the U.S. originates in Canada.

Norfolk Southern took a $99 million "impairment charge" against "an equity method investment" in the 2020 third quarter. They were not at all forthcoming about where it was. But now the 2020 10-k may offer a clue on page K51. They show, in millions, $1446 in Conrail, $798 in TTX, and $418 in "Other."

The "Other" in FY2019 was comprised of Meridian Speedway $271, Pan Am Southern $155, and Other $85, for a total of $510, which is $92 million more than the $418 Other line for 2020. The numbers for the MS and PAS were unchanged 2018-2019 and over those two years the "other" line went from $77 to $85, respectively, neither of which gets you to the $99 million charge this year.

KCS and NS are aggressively selling the Speedway as the short way to the US southeast from Mexico, so I doubt there's any pullback on that property. CSX announced its intention to acquire Pan Am Rail on November 30, and surely there had been discussions before that, perhaps going back to September — in the third quarter, that is.

Recall, too, that in early November Norfolk wrote the STB to express its concern with what appeared to be a discussion between Pan Am Railways and CSX about "establishing a voting trust with regard to the acquisition of Pan Am and, by consequence, its subsidiaries." Norfolk's particular concern had to do with the Pan Am Southern, the joint NS-PAR venture established in 2009 "to strengthen competition with CSX."

So I think the odds are the "equity method" write-down in 3Q2020 was related to the Pan Am CSX discussion, in which NS had to be a participant because of its "equity method" investment in Pan Am Southern.

Watco and Crowley Shipping have teamed up to create a single-source terminal and supply chain management system to support the growing number of offshore wind projects planned for the U.S. East Coast. The partnership comes after Crowley launched a New Energy division within its Crowley Shipping business unit to focus on the emerging offshore wind industry in the U.S. and LNG services.

Watco's Green Port Industrial Terminal on the Houston Ship Channel is equipped to handle oversized offshore wind components and distribute them to job sites beyond. The goal of the partnership is to provide terminal management services for Crowley New Energy. Shows what one can do with a railroad plus a terminal plus connections beyond the railroad business per se.