

# RAILROAD WEEK IN REVIEW

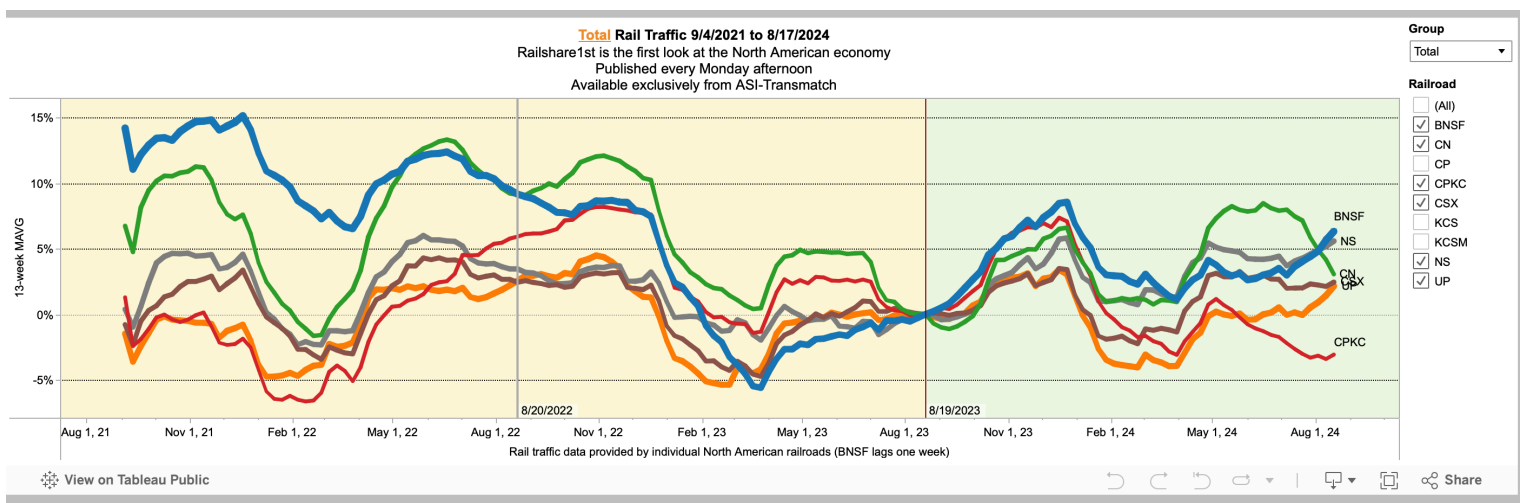
August 23, 2024

*“The overall likelihood of a recession remains low. While concerning, the recent rise in unemployment stems from an increase in the labor force rather than layoffs, and on the brighter side, inflation trends are leading to real (that is, inflation-adjusted) wage growth.” — AAR Rail Industry Overview, August, 2024*

*“We are really seeing a lot of positive momentum, particularly around sales and marketing collaborating with operations... Our chemicals franchise has performed very well as momentum has persisted in plastics, industrial chemicals, waste, and energy markets.” — Kevin Boone, CSX Chief Commercial Officer, August, 2024*

**When you look at traffic charts,** it’s helpful to know the manifest/coal/intermodal split by revenue units. The longer the time frame the better because seasonal blips and flutters are evened out. In the first chart below, note how the wide dispersion in revenue units a year ago has compressed into a much narrower range as of now.

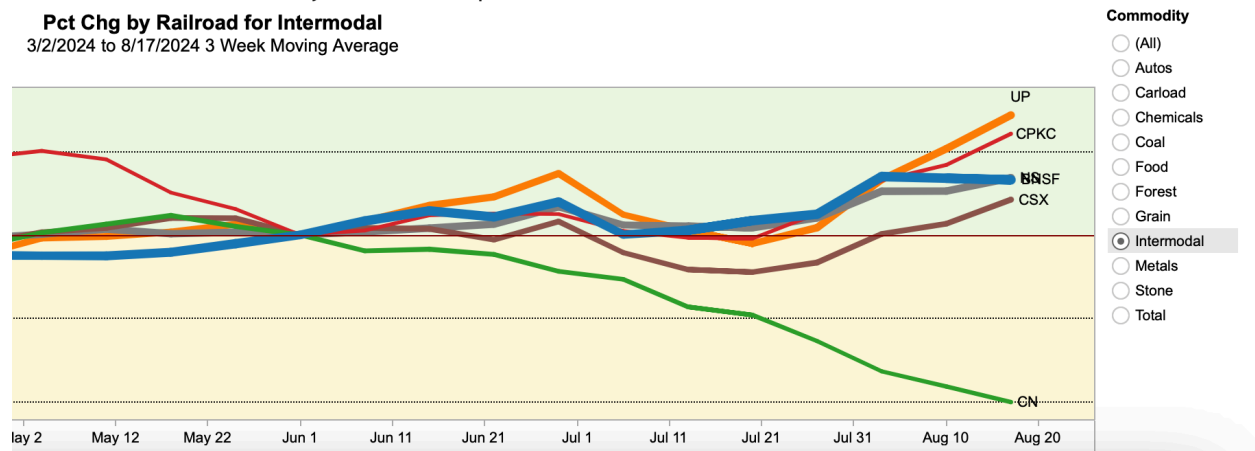
This particular chart is a bit unusual in that it starts with the volume spread between names, converges to zero half way through, and reverts to the actual spreads extreme right, telling us the spread between the rate of BNSF revenue unit volume growth and that of CPKC has narrowed markedly.



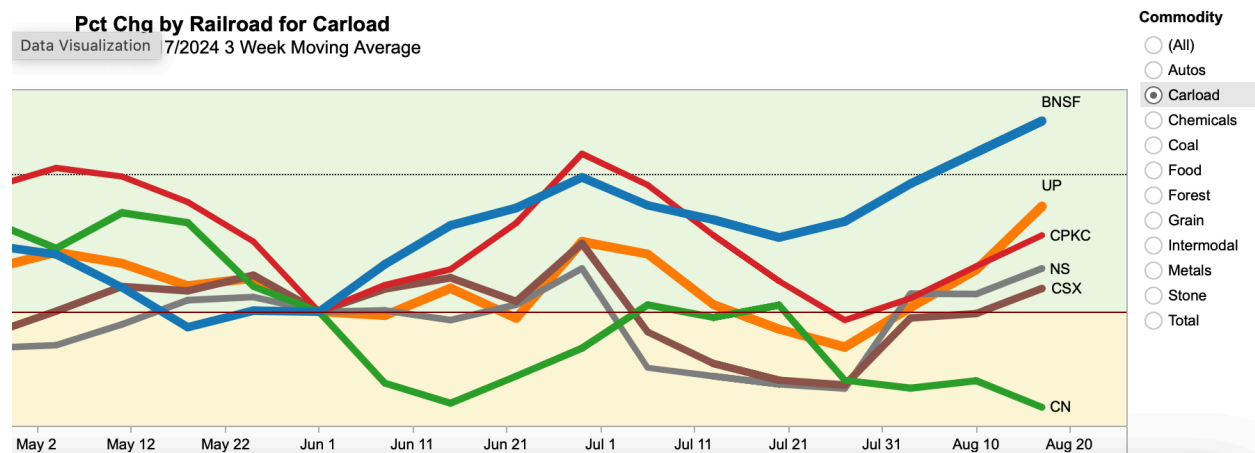
Part of the explanation has to be the intermodal story. The roads where manifest freight is more than half the total units are pretty much unchanged. The next chart is intermodal only and you can see that the rate of change in intermodal boxes carried by UP now exceeds that of BNSF.

Here, the rate of change for CN is about where it was at the beginning of the period; CSX, NS, and BNSF were relatively flat, whereas UP and CPKC showed significant uptrends. BNSF intermodal accounted for 55 percent of all revenue units handled in the 2024 first half. UP was next, with intermodal boxes making up 45 percent of volume.

In this second chart (below), see how UP surpasses BNSF in the rate of change for intermodal boxes and how CN tanks. The difference is in the manifest carload rate of growth in the third chart.



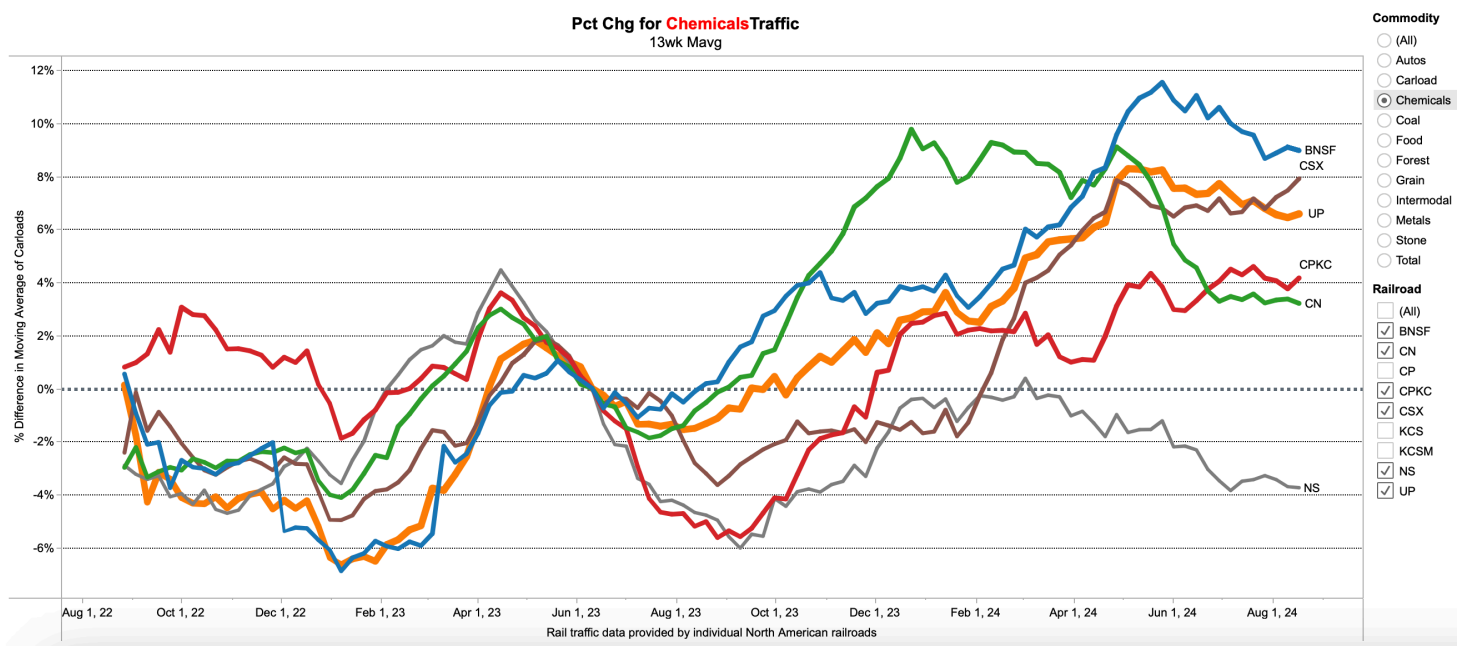
As for manifest carloads without intermodal, BNSF again wins the brass ring thanks in part to its 11 percent surge in grain vs. UP's two percent increase for grain loads. These trends are important to railroad customers because it shows them where their



commodities rank in the general scheme of things. Grain, chemicals/petroleum, and intermodal together comprise 70 percent of BNSF revenue units and 80 percent of NS volume. But there's a catch. At BNSF the 2,000-mile intermodal haul dominates whereas NS is lucky to get half that, so intermodal margins are much thinner in the east.

I have enjoyed office car trips over significant portions of the BNSF and UP intermodal routes and they are fast railroads. Norfolk's ex-PRR and ex-Southern core routes are no match for the UP's Nebraska triple track or the ex-Santa Fe routes of BNSF. Ergo in the US the manifest carload sector is the best for for CSX and NS; the thousand-mile intermodal speedways are the bread-and-butter franchises of UP and BNSF.

Finally, the Transmatch tool lets one drill down into specific commodities. Here's chemicals, perhaps the most lucrative group of all — high-value products in leased equipment enjoying attractive revenue/avoidable cost multiples. CSX makes no bones about beating the bushes for new carloads in attractive businesses — like chemicals. It must be working.



*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. Corporate subscriptions for Class I railroads and short line/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). © 2024 Roy Blanchard*