

RAILROAD WEEK IN REVIEW

April 18, 2025

“Proponents of free trade reassure us that the United States is much better off and stronger on balance by opening ourselves to trade; everything else will work out. But by the time that it became apparent that everything was not working out and that there was a cost to many communities, the free trade proponents didn't worry much because it was all happening someplace far away to people they didn't know.” — Robert Lighthizer, No Trade is Free, (c)2023

“The Penn Wharton Budget Model estimates that over the next three decades, America's GDP will shrink by about 8% and wages by 7% relative to their pre-tariff trajectory. Most striking, it anticipates that America's overall capital stock will end up more than a tenth smaller than it would have been. As such, America will be a country with shabbier roads, older airports and, more dated factories.” — The Economist, April 16

Continuing the tariff thread, business uncertainty is having its effect on share prices. The broader market, especially large-cap growth, faces the toughest revenue comps ever amid slowing growth and the accelerating rate of upward change in the inflation rate. One effect is seeing gold surging to all-time highs due to a strong inverse correlation with the US Dollar.

As you have seen in my previous WIRs, rail shares are in a significant downtrend, driven in part by slowing growth in the number of revenue units. A quick glance at the 1Q2025 AAR Carload Reports for UP and BNSF show slowing rates of change in such commodity groups as metals, forest products, and aggregates. The algos dropped the industrials ETF (\$XLI) share price precipitously two weeks ago.

As for Class I performance, Susquehanna's Bascome Majors writes in his Week 15 Note, “Results came in slightly above our expectations, but below our sense of buyside expectations. Management's tone of uncertainty will be reflected the results we see in the coming weeks.” His Week 15 summary shows all negative numbers for all merchandise commodity changes YTD.

To buy or not to buy gold, that is the question, as gold has surged to all-time highs. On the one hand, bullion advocate Simon Mikhailovich makes an excellent case for owning physical gold. On the other hand, Warren Buffett says it's just a lump of metal that doesn't produce anything whereas he prefers investing in companies that actually make things. And the Street seems to prefer paper gold – \$GLD, for example. What to do?



IMHO we're never going to see the return of the industrial landscape Lighthizer so lovingly describes. Any re-shoring of manufacturing companies will be such that robotics rule the day with little room for a manual labor. So one must ask what is the future of manufacturing companies employing big numbers of unionized workers? What does this do to Warren Buffet's case for manufacturing companies?

If commodity carload growth patterns are any indication, the classic manufacturing-based industries we knew 20 years ago are disappearing. I've traced annual carload growth going back several years and the trend is not encouraging. And although there was a lot of happy talk about the strength of the short line industry at the recent ASLRRA conference, I'm not so sure.

Most of the 500+ short lines in my database don't even meet the Rule of 100 for profitability and are largely dependent on government grants to stay alive. Given the way the Musk chainsaw is going through government spending, I wouldn't be depending on handouts to fix my track.

A recent note from Stifel adds, "We see significant downside risk if current tariff levels are sustained over the longer term — particularly if they contribute to a broader economic slowdown." For example, UP and BNSF have greater exposure to tariff-driven volume downturns than the eastern and Canadian names.

Says Lighthizer, "The elephant in the room has nothing do to with 1Q, and everything to do with DC." Bottom line: expect fewer inbound carloads of manufacturing-related raw materials and outbound finished goods. This unsettled environment may not affect you directly, but you may see downstream effects on your customers, suppliers, and and users.

An item in the trade press takes Norfolk Southern specifically to task: "Sell NSC. The company shows underwhelming unit sales over the past two years as they have struggled to increase its sales volumes and had to rely on price increases.

“Earnings per share have contracted by 7.6% annually over the last two years. And free cash flow margin shrank by 7.8 percentage points over the last five years, suggesting the company is consuming more capital to stay competitive.” A shrinking industrial base doesn’t help.

I think that’s enough doom and gloom for one week. Take care out there.

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