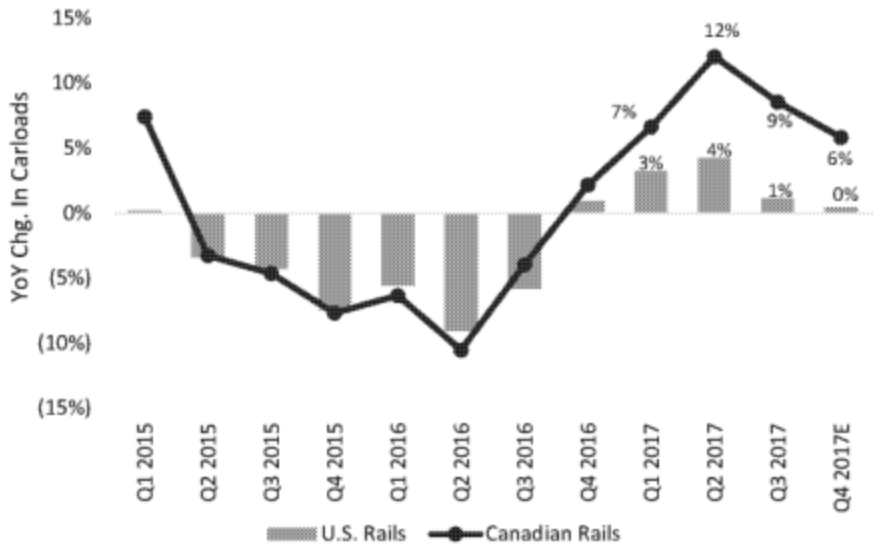
More recently, we have seen significant strength in Canada due to strong Intermodal (up 11% YTD), Chemicals (up 9% YTD), and Metals traffic (up 28% YTD). To that point, Canadian carloads are up 9% yoy through 3Q 2017– which compares to up 3% for the U.S. railroads.

Figure 20: YoY changes in U.S. vs. Canadian rail traffic Q1 2015 - Q4 2017e



Note: U.S. rails include CSX, NSC, and UNP. Canadian rails include CP and CNI
Source: Deutsche Bank, Company filings

Revenue discussion

The revenue model for rail companies is fairly straight forward at a high level - volume (typically measured in carloads) x price (measured in average revenue per carload). Total company revenue per carload can depend on various factors, such as mix of volume (different commodities have different price points), length of haul, movements in core/underlying price and fuel surcharges.

In 2016, the seven Class I railroads generated roughly $78 billion in revenue. This marked an 8% decline from 2015 amidst a 4.2% decline in rail carloads and 4.0% decline revenue per carload (yield). The decrease in rail traffic was largely the result of weaker industrial production activity across North America due to the collapse in commodity prices, looser truckload capacity (hurts domestic intermodal volumes), and the continued shift away from coal dependency (coal carloads down 20% in 2016). The decline in yield, which has a few more moving parts than volumes, was largely the result of lower fuel surcharge revenue ($2.5 billion cumulatively, or $60/carload) and mix headwinds as core-pricing (essentially same-store pricing) was up in the low-single digits across the industry. We note 2016 was largely a continuation of downward trends which began in early 2015 and things appeared to bottom in late 2016. To that point, we expect revenue for the industry to be up roughly 6% in 2017 reflecting easy comps, increased industrial production activity, a rebound in coal volumes (largely due to a weaker USD), and increased fuel surcharge revenue. Below we depict Class I revenue trends from 2010-2018E and a market share breakdown by rail.

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