S&P Global
Market Intelligence

CSX Corporation NasdaqGS:CSX

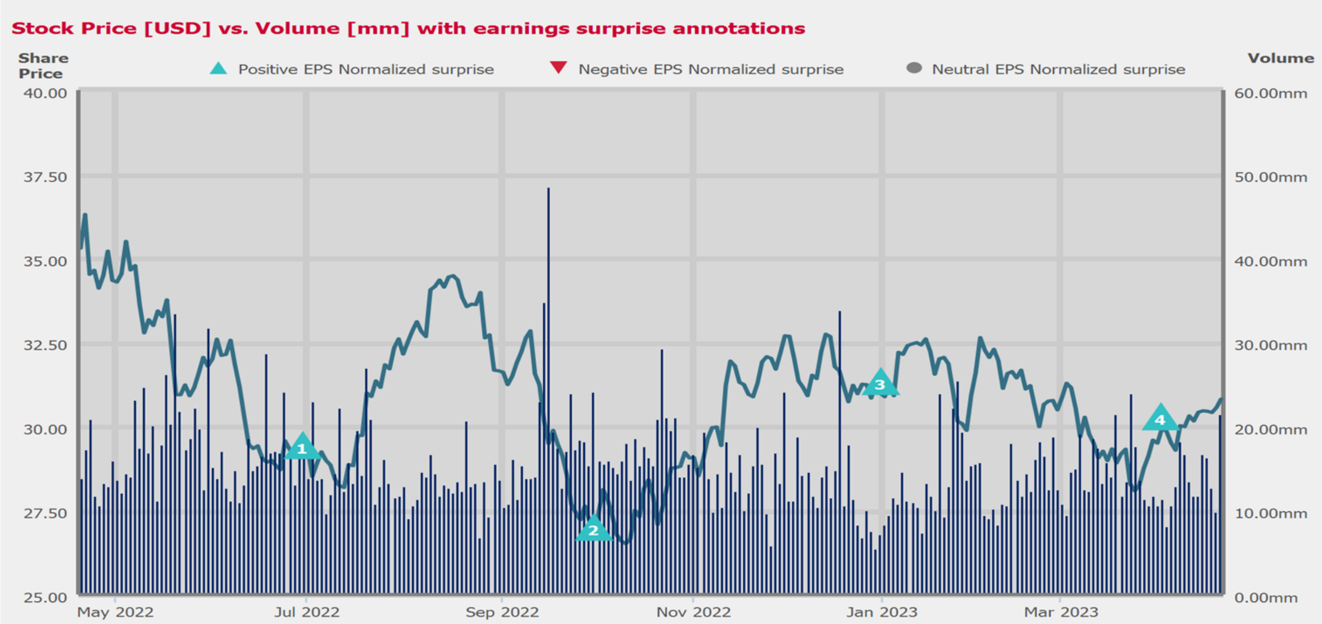
FQ1 2023 Earnings Call Transcripts

Thursday, April 20, 2023 8:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2023-			-FQ2 2023-	-FY 2023-	-FY 2024-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.43	0.48	▲11.63	0.48	1.87	2.03
Revenue (mm)	3582.87	3706.00	▲3.44	3678.08	14604.11	14950.94

Currency: USD
Consensus as of Apr-18-2023 5:02 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2022	0.47	0.51	▲1 8.51 %
FQ3 2022	0.49	0.52	▲2 6.12 %
FQ4 2022	0.47	0.49	▲3 4.26 %
FQ1 2023	0.43	0.48	▲4 11.63 %

Table of Contents

Call Participants

EXECUTIVES

Jamie J. Boychuk
Executive Vice President of Operations

Joseph R. Hinrichs
President, CEO & Director

Kevin S. Boone
Executive VP and Chief of Sales & Marketing

Matthew Korn

Sean R. Pelkey
Executive VP & CFO

ANALYSTS

Allison Ann Marie Poliniak-Cusic
Wells Fargo Securities, LLC, Research Division

Amit Singh Mehrotra
Deutsche Bank AG, Research Division

Ariel Luis Rosa
Crédit Suisse AG, Research Division

Benjamin Joel Nolan
Stifel, Nicolaus & Company, Incorporated, Research Division

Brandon Robert Oglenski
Barclays Bank PLC, Research Division

Brian Patrick Ossenbeck
JPMorgan Chase & Co, Research Division

Christian F. Wetherbee
Citigroup Inc., Research Division

David Scott Vernon
Sanford C. Bernstein & Co., LLC., Research Division

Fadi Chamoun
BMO Capital Markets Equity Research

Jason H. Seidl
TD Cowen, Research Division

Jonathan B. Chappell
Evercore ISI Institutional Equities, Research Division

Justin Trennon Long
Stephens Inc., Research Division

Kenneth Scott Hoexter
BofA Securities, Research Division

Michael Triano

Scott H. Group
Wolfe Research, LLC

Unknown Analyst

Walter Noel Spracklin
RBC Capital Markets, Research Division

Presentation

Operator

Good day, everyone, and welcome to the First Quarter 2023 CSX Corporation's Earnings Conference Call. Today's call is being recorded. And I would now like to turn the conference over to Matthew Korn, Head of Investor Relations. Please go ahead, sir.

Matthew Korn

Thank you, operator. Hello, everyone, and welcome to our first quarter call. Joining me this afternoon are Joe Hinrichs, President and Chief Executive Officer; Jamie Boychuk, Executive Vice President of Operations; Kevin Boone, Executive Vice President of Sales and Marketing; and Sean Pelkey, Executive Vice President and Chief Financial Officer.

In the presentation accompanying this call, you will find our forward-looking disclosure on Slide 2 followed by our non-GAAP disclosure on Slide 3.

And with that, it's my pleasure to introduce our President and Chief Executive Officer, Mr. Joe Hinrichs.

Joseph R. Hinrichs
President, CEO & Director

All right. Good evening, everyone. Thank you, Matthew, and thank you all for joining our conference call. Working together, the ONE CSX team delivered a strong first quarter, driven by solid pricing as well as volume growth in our merchandise and coal businesses. With sufficient resources in place, we are able to use the benefits of our scaled railroad model to deliver improvement in our customer service performance that are driving real tangible financial results. Our network is running well, and we intend to do even better and show that CSX can sustain reliable service over time, which is essential for us to profitably grow our railroad. 2023 has already proven to be a very active year. One of our top priorities after the national union agreements were finalized last December was to address the matter of Paid sick leave for our union employees. I am very pleased that CSX demonstrated important leadership here. Starting in February, we were the first U.S. class

[Audio Gap]

More details about the specific proactive steps we have been taking to make CSX safer. I have also been actively involved in discussions with our leaders in Washington and the across states our network about some of the legislation that has recently been proposed. They know that it's better for our economy, our environment and our communities for railroads to move a greater share of the nation's freight.

They also know that CSX is eager to be part of solutions that are effective, data-driven and will make our whole industry safer. We do not want safety performance to be a competitive advantage for CSX, but wanting to be something our entire industry is proud of. We have been encouraged by our conversations with senior policy leaders and we'll continue to engage with them in the months ahead, sharing best practices and building on our common ground.

We are confident that the industry will emerge in this period stronger, more aligned and better at sharing safety best practices. Now let's turn to our presentation to review the highlights of the first quarter. We moved nearly 1.5 million carloads in the first quarter and generate over $3.7 billion in revenue, which was 9% higher than the previous year. Operating income increased 14% year-over-year to $1.46 billion, and our operating ratio was 60.5%, which includes the OR impact of the quality carrier destruction business, as we've discussed in the past.

Finally, earnings per share increased 23% to $0.48. When I came to CSX last fall, we were very clear with our intention to build on this company's excellent operating model by strengthening our relationships with our employees and serving our customers better. It is still early but you will hear clear examples of how we are starting to achieve this as Kevin, Jamie and Sean talk about the details, what was a very strong quarter.

Now let me turn it over to our team.

Jamie J. Boychuk
Executive Vice President of Operations

Thank you, Joe, and good afternoon, everyone. Every quarter, you hear us emphasize the importance of safety on our network. This is a fundamental part of our culture and defines how we execute our operating plan. We didn't take shortcuts, we don't compromise, and we teach this mindset to every 1 of our new hires and continually reemphasize it to all of our employees.

In this slide, you will see some of the real proactive steps that we are taking to keep our network running safely. In 2023, we are installing 53 additional hot box detectors across our network. These added detectors will reduce the average spacing from 16.2 miles to 14.9 miles. At CSX, these detectors identify high-bearing temperatures, but also transmit real-time data for trend analysis. So we can not only tell when a bearing is hot and a train needs to stop, but we can also use the data to predict bearings and issues before they reach critical temperatures. We're also continuing to integrate newly hired employees into our safety culture, which begins on day 1. Newly hired employees attend extensive training at our railroad Education and Development Institute in Atlanta.

The robust classroom, combined with field-based training gives these new employees the tools they need to operate safely in their new roles. Autonomous track assessment cars, commonly called ATACs, are also used as part of our proactive safety plan. These look and run like regular box cars that are loaded with advanced technology. These cars operate on our regular trains and gather critical inspection data that allow us to closely monitor track conditions. Lastly, we are committed to being supportive partners in the communities in which we live and operate.

That is why we dedicate so much effort to developing relationships with first responders in those communities and teaching them how to properly respond to incidents, especially those with hazmat materials. We have a dedicated fleet of railcars, including 4 tank cars that are specifically designed and used to offer multi-day training sessions. This is a program we have run for many years. And in 2022, we trained nearly 4,000 first responders. Turning to the next slide. The FRA personal injury rate ticked down sequentially, while the FRA train accident rate increased slightly. However, both measures are up year-over-year.

It's important to consider that because of the success of our recent hiring efforts, we have a higher percentage of newer employees -- as they gain experience and learn from federal railroaders, we are confident that the frequency of these incidents will decline. Now turning to Slide 9. Operating performance has improved significantly. With the appropriate resources in place, we are doing what we do best, effectively executing our operating plan. The team's ability to deliver these operating results is a true testament to the tough and hard work that we are doing as an operating team and a plan that shows no other than what we can do here at CSX.

Most importantly, the dedication that's given by all of our railroaders. I cannot thank our operating employees enough for overcoming the resource challenges and delivering such solid performance for our customers. Carload trip performance of 86% reached an all-time record level this quarter. while intermodal trip plan performance of 96% matched a record high, while the team is pleased with these results, we'll keep improving. In fact, both measures have continued to improve sequentially into the second quarter. I'm happy with the compliments and support we have received from customers regulators and shareholders on our service improvement, but we are not done yet. As Joe said, our goal is to keep improving our service and show that we can sustain this over time so that we can drive long-term growth for CSX. With that, I will turn it over to Kevin to discuss the top line results.

Kevin S. Boone
Executive VP and Chief of Sales & Marketing

Thank you, Jamie. We are very pleased with our merchandise performance this quarter. Revenue increased 13%, benefiting from an 8% increase in revenue per unit and a 4% increase in volume. We are seeing some encouraging signs as customers start to respond to our improved service and reduced cycle times. The team is focused on combining best-in-class service with creative solutions to identify new growth opportunities and gain wallet share with existing customers. While we did see positive growth in automotive, customer production issues impacted volumes in the quarter.

On the positive side, we see production issues moderating and expect a strong outlook for automotive volumes through the remainder of the year. Minerals and Metals both outperformed, driven largely by very strong aggregates in steel demand. Pricing was up year-over-year as we benefited from favorable contract repricing and higher fuel surcharge. For the remainder of the year, we will continue to see benefits from a supportive pricing environment and improved rail service. While the economic outlook remains uncertain, we continue to see positive momentum in many of our merchandise segments as the team focuses on the growth drivers that we can control.

It's still early but we are encouraged by our ability to convert improved service into new business wins in segments such as auto, minerals and food products. There remains a significant opportunity to win share from truck across our merchandise portfolio. Turning to Slide 12. First quarter coal revenue increased 19% on 19% higher volume and flat revenue per unit. Export volumes were strong as we leverage improved cycle times and improved production and performance at the origin mines. We also benefited as we lap the effects of reduced capacity at our Curtis Bay terminal.

Our domestic shipments also improved on utility restocking demand and improved rail capacity. International met coal benchmarks remained strong over the quarter and now sits just below $300 per metric ton, which continues to support strong production levels. Looking ahead, the international coal market continues to be supported by healthy commodity prices that should drive positive year-over-year volume growth through the remainder of the year. While the domestic market could face a more challenging backdrop should natural gas prices remain low.

Turning to intermodal on Slide 13. First quarter revenue decreased by 5% as a 9% decrease in volume more than offset a 5% increase in revenue per unit. Most of this volume decline was due to weakness in international intermodal markets, which, as we expected, have been heavily affected by slowing import activity as demand softened and retail inventories remained elevated. Looking forward, while the intermodal market currently remains challenged, we do expect second half year-over-year headwinds to moderate. The team has a number of initiatives underway to continue to drive truck conversion by introducing new lanes of service where there is market demand.

Now finally, turning to Slide 14. Many of you are aware of the major market shift developing over the last few years as more companies look to diversify their supply chain and bring capacity closer to their key end markets. We have been encouraged by the acceleration in activity with manufacturers of all times, announcing plans and committing capital to build capacity in the Eastern U.S.

For CSX, this represents a great opportunity. Our network connects the major population centers of the Northeast with the fast-growing areas of the Southeast that are highly attractive for companies looking to expand. The mission of our industrial development team is to partner with these companies and provide them with a rail serve location where they can leverage the benefits of the CSX network and industry-leading service. We continue to invest in our select site program that has expanded to include a wider range of rail serve site opportunities.

Combined with new technology enhancements, this will allow us to capture industrial projects of all sizes by offering shovel-ready development sites with access to CSX network. As you can see on the slide, we are excited about the success we are seeing. In 2022 alone, our customer partners brought nearly 90 new facilities online, representing $8.2 billion of total investment across our network and on our short line partners. The map shows how broadly these in-service projects stretch across our service area. Our pipeline remains robust with over 500 projects in process across our entire industrial development pipeline, and we're adding to this total each month.

Over time, we expect the new business that these projects represent to be a key driver to our growth algorithm as we help our partners bring in an increasing number of expansion projects onto our network, driving volumes and revenue higher. I would like to thank the entire team for all of their efforts across our growth initiatives. We're very excited about the momentum we are building and the engagement as we partner with our customers to grow together. Now I'll turn it over to Sean to discuss the financials.

Sean R. Pelkey
Executive VP & CFO

Thank you, Kevin, and good afternoon. Looking at the first quarter results, revenue increased 9% or $300 million on merchandise and coal volume growth, strong pricing and higher fuel recovery. Operating income was up 14% to $1.5 billion as top line growth outpaced several expense headwinds, which I'll discuss in more detail on the following slide. Interest and other expense was $7 million higher compared to the prior year and income tax expense increased by $47 million on higher pretax earnings. Net earnings increased 15% to $1 billion, while EPS grew 23%. Let's now turn to the next slide and take a closer look at expenses.

Total first quarter expense increased $111 million compared to the prior year. This includes about $65 million of inflation headwinds as well as an $85 million impact from higher fuel and depreciation combined with lower real estate gains. Now turning to the individual line items. Labor and fringe expense increased $31 million as the impacts of additional head count and inflation were partially offset by lower incentive compensation expense. PS&O expense increased $13 million primarily due to inflation, the inclusion of Pan Am operations and scheduled locomotive overhauls.

These impacts were partially offset by a $46 million benefit due to an insurance recovery arising from a customer facility outage several years ago as well as lower intermodal costs as congestion eases. There were also several smaller line item impacts within PS&O that were greater than expected this quarter and should improve sequentially. Depreciation was up $33 million as a result of last year's equipment study as well as a larger asset base. And fuel expense also increased by $33 million due to a higher gallon price and a 3% increase in gross ton miles.

Equipment and rents improved by $18 million, benefiting from increased fluidity and faster car higher days per load across all markets. Property gains were $19 million unfavorable in the quarter due primarily to lapping prior year gains from the Virginia real estate transaction. Network and congestion related savings were evident within rents and across intermodal terminal expenses this quarter, and we expect sustained network performance to drive further efficiency savings through the year.

Now turning to cash flow on Slide 18. CSX generated over $800 million of free cash flow in the quarter. reflecting the impact of cash payments for retroactive wages and bonuses paid to union employees. Adding back these payments, free cash flow would have been up slightly versus last year despite higher investments in the business. You'll also recall that CSX has introduced a measure of economic profit called CSX Cash earnings, or CCE, within our long-term incentive compensation. It benefits both our shareholders and the general public when we grow profitably by encouraging the conversion of freight off the highway.

And CCE is aligned with this shared interest by encouraging disciplined high-return capital investments. The calculation can be seen in the appendix. And through Q1, CCE is up $165 million versus the prior year. After fully funding infrastructure investments and strategic projects, CSX returned $1.3 billion to shareholders in the first quarter, including close to $1.1 billion of share repurchases and over $200 million in dividends. Looking forward, we will remain balanced and opportunistic in our approach to returning excess cash to our shareholders. And with that, let me turn it back to Joe for his closing remarks.

Joseph R. Hinrichs
President, CEO & Director

Thank you. Thank you, Sean. Now let's conclude with some comments on our outlook for 2023, as shown on Slide 20. First, as you heard Kevin describe, we are very pleased with the performance we have seen year-to-date from our merchandise business. Strong demand for grains, metals, Minerals and Automotive, combined with significant new customer wins give us increasing confidence that we will be able to deliver solid volume growth for the year in merchandise. We're also off to a strong start to the year for coal, and we expect continued benefit from healthy export demand, both thermal and met. Our merchandise and coal have met or exceeded our expectations. Intermodal volumes have been below what we anticipated.

We knew the intermodal -- sorry, we knew the international intermodal activity will be down substantially over the first half of the year. And though parts of our domestic business are doing very well, has not been enough to offset the effect of lower imports and elevated inventory.

Altogether, Intermodal contributes less than 1/3 of our revenues, but it does contribute roughly half of our volume and was a drag on our total volume over the quarter. The softer intermodal performance will make it difficult for our total CSX volume to meet our previous guidance and grow faster than GDP, especially as consensus GDP estimates for 2023 have moved up and are currently at 1.1%. That said, the effect on our business mix is favorable. Revenue ton miles grew by a solid 4% in the first quarter, driven by the strength in merchandise and export coal and we expect revenue ton miles to grow solidly in the low single digits for the full year. The rest of our outlook is consistent with what we told you at the beginning of the year.

We continue to benefit from the favorable pricing environment with customer negotiations supported by our transparency on costs and our improved service products. We still expect supplemental revenues to decline by roughly $300 million compared to last year, with much of that decline in run rate already in [indiscernible] in the first quarter. International met coal benchmarks remained very strong over the quarter and spot prices are just below $300 per tonne today, but year-over-year comparisons will get tougher from here. We will continue our efforts to drive higher efficiency and reduce excess costs to counter the inflationary effects in our labor and other operating costs as best we can. So -- the best way for us to support our margin performance will be to drive more merchandise volume and benefit from the powerful operating leverage potential of our network.

Lastly, we still estimate cash flow expenditures at $2.3 billion. In closing, I am very encouraged by what we accomplished in this quarter. I'm energized to see the ONE CSX culture start to take shape across this company. Every industry has challenges, but ours are addressable and solvable, and I am confident that they are far outweighed by the opportunities that we have ahead. As I said before, all of us here at every location across our network share a common goal of providing the safe, reliable service to our customers that drives profitable growth, and we are taking meaningful steps towards that goal. Thank you, and we'll now take your questions.

Matthew Korn
Thank you, Joe. [Operator Instructions]. And with that, operator, please open up the line for questions.

Question and Answer

Operator

[Operator Instruction]. we'll take our first question from Brian Ossenbeck with JPMorgan.

Brian Patrick Ossenbeck
JPMorgan Chase & Co, Research Division

Kevin, with the backdrop of improving service and bidding compliance at pretty strong levels. Can you just talk about the order rates, the fill rates across the network? You've heard some different comments and clearly, intermodal is suffering from poor bid compliance. But where do you see when you talk to your customers across the different networks, I guess, primarily within merchandise, where it might be a little more service and truck sensitive.

Kevin S. Boone
Executive VP and Chief of Sales & Marketing

Yes. I think you probably remember the discussion over the last few quarters where we said we weren't up against the order rates. I would say we're probably more in line with that, especially with our improved service levels. So we're meeting the customer demand currently, but we did see weakness kind of starting last year during the third quarter, fourth quarter period. So as we look through the back half of the year, in many of our markets, particularly on the merchandise side, we see -- we should see some easier comparisons based on the current economic activity that we're seeing. So that's what gives us kind of the confidence in the guidance as we move through the year.

Operator

We'll take our next question from Ken Hoexter with Bank of America.

Kenneth Scott Hoexter
BofA Securities, Research Division

Great. If I could just follow on that thought there, Kevin. So it seems like something changed economically kind of mid-February, right, if we look at spot rates in trucking. Can you talk about -- I don't know, Joe, you seem to be talking about kind of intermodal being tougher, and that's why switching from a GDP plus to a kind of an RTM type of outlook. Is there something changing economically in the backdrop more recently? Or is that just the weakness in the truck market? Maybe just talk a little bit about on the intermodal side or just the economic background.

Kevin S. Boone
Executive VP and Chief of Sales & Marketing

Yes, I think -- and we certainly expected a weak market on the international side, but it's safe to say that I think that market came in a bit weaker than what we had expected in the first quarter. But on the flip side, and I would probably make this trade off every time as we saw some strength in some of the merchandise markets that obviously have a much higher ARPU and revenue contribution. So -- that's kind of what we saw through the quarter. There are varying opinions on when the international market will recover. Some of our larger customers expect some kind of pickup in the second half. We have seen some stability over the last 2 to 3 weeks, which is encouraging, but we'll face difficult comparisons through the third quarter and then fourth quarter gets a lot easier.

Operator

We'll take our next question from Jon Chappell with Evercore ISI.

Jonathan B. Chappell
Evercore ISI Institutional Equities, Research Division

Kevin, I'm going to stick with you. Given the slides that Jamie put up, particularly #9, with all those service improvements, Trip plan performance, et cetera, do you feel like you're being appropriately compensated for your improved service, both on an absolute basis, but especially on a relative basis as you go through these contract renewals. And I guess another way to ask that is, how far are you through the contract renewals that actually exemplify some of the service improvements that you've done over the last couple of months?

Kevin S. Boone
Executive VP and Chief of Sales & Marketing

Yes. Typically, when you look at our renewal rates, and we renew a little over half our business every year, and that's highly concentrated in the fourth and first quarters. And I would say, given the backdrop in inflation that we would certainly we're having those conversations with our customers to be able to cover our cost increases that are very visible to the market. As we continue to prove our service, customers continue to reiterate, they're willing to pay for the service and the reliability that we can provide. And the plan is, and we -- I think that's starting to occur as we believe we have a differentiated service in the market.

And so it's -- we're starting to see early success in our conversations with customers around more volume opportunities with them. And I can't reiterate enough in a market like this is where we should be taking share. Our customers are looking for ways to save money. Usually, rail is a cheaper option for them, and they're getting more and more confidence in our ability to deliver the service that we need to. So the team is very, very excited about some of the things that we've been able to do here over the last few months.

Operator

We'll take our next question from Brandon Oglenski with Barclays.

Brandon Robert Oglenski
Barclays Bank PLC, Research Division

And maybe this is for Joe or Jamie, but we've had, obviously, a lot of negative press on the railroads, unfortunately, in the last few months. And the PSR concept has kind of been dragged through the mud a bit. But can you guys compare and contrast because you are delivering just like the last question, very good service metrics here. So what's driving the difference between the rest of the industry? And I guess, how do you leverage that going forward. .

Joseph R. Hinrichs
President, CEO & Director

Yes, thanks. I'll start and let Jamie add some comments. As I've said many times in the past, I think the guiding principles of our operating model are long-standing and are sustainable, and that, of course, improves safety control costs. Improve asset utilization, improve the employee experience and then also improve customer service, and we are working hard at all 5 of those and keeping them in balance as far as how we prioritize for always safety first.

And I believe very strongly that the results that we're seeing throughout our network and being delivered by our great ONE CSX team is a result of that and focusing on our employees and the customer service specifically. And so I believe that the principles of [indiscernible] railroading are just as valid today as they were 5 years ago. Obviously, it's how you keep things in balance and how you prioritize and how you bring everyone along and we're trying to lead by example in that regard.

Jamie J. Boychuk
Executive Vice President of Operations

Well, Joe hit it really well. For -- when I think about -- and I hear people say PSR, what does that really mean? I don't know. I only know one way to railroad. And this is the way I was taught the railroad many years ago back when I was at CN. So we've been able to teach the great folks at CSX over the past 6 years how to do this. I've got an unbelievable operating team, some great bench strength and we are doing fantastic, and we've got the resources in place in order to now actually operate the plan. We struggled for years to do that through COVID, but we've come out of it the way we said we would.

And we're operating the plant and the team that's out there that's exercising that in the field, not just the network folks who put the plan together, but the field team who is executing it and the folks on the [indiscernible] line who are running the trains each and every day that are doing an unbelievable job are getting the trains from point A to Z the way we need them to and servicing the customers the way that we've committed to servicing them and giving Kevin and his team a product that gives them an opportunity to finally go out there and sell something that's different. So I don't know, call it what you want. I just call it railroading.

Operator

We'll take our next question from Scott Group with Wolfe Research.

Scott H. Group
Wolfe Research, LLC

Kevin, how should we be thinking about rev per carload in sequentially even from 1Q, 2Q. Just maybe walk us through some of the puts and takes. And then similar things, Sean, just 60.5% OR in Q1. I know there's the insurance recovery, but do you think we see sequential improvement from here the rest of the year.

Kevin S. Boone
Executive VP and Chief of Sales & Marketing

Yes. I think really the biggest driver from Q1 to Q2, we continue to, as I said, see strong pricing in the backdrop of higher inflation and that's not going to -- that's going to continue throughout the year as we obviously have contract renewals, and we'll have those discussions with customers.

The biggest swing factor, quite frankly, is fuel surcharge and where you see diesel prices head into the summer here. And on a year-over-year basis, where they sit right now, obviously, that's an optical headwind, but we know how quickly those can recover, and so we'll see where that trends. But other than that, you look at export coal and sequentially, probably ex fuel, you're probably looking at something that's flat to the first quarter on the coal RPU, which can swing around a little bit, and that's one that you usually ask about. But otherwise, positive momentum on the core price and then we'll just have to wait and see where the diesel prices shake out.

Sean R. Pelkey
Executive VP & CFO

And then, Scott, in terms of operating ratio, yes, I mean, 60.5% for the first quarter is obviously a great start for us. I think as you think about sequentially, you probably have to normalize that for both the insurance gain and then the favorable fuel lag benefit that we had in the quarter. So that gets you to around a 62.5%. We almost always do better in the second quarter from an OR perspective than the first, and that's primarily as a result of the fact that volumes typically seasonally increase in Q2 relative to Q1. We don't see any reason to believe that we'll see anything different this year.

Particularly with some of the issues we had in Q1 with auto production that should ease here, have eased and a strong demand for aggregate. So it's a good setup. I will say just one thing to caveat that with is other revenue was a little bit elevated in Q1 versus the run rate where it likely will be the rest of the year, that may be a little bit of a headwind, but on the flip side, we feel good about the cost momentum if service continues to be at these levels or even better, we should see more costs come out sequentially.

Operator

We'll take our next question from Fadi Chamoun with BMO.

Fadi Chamoun
BMO Capital Markets Equity Research

Yes. You had the slide talking about the 19 new facilities coming online and obviously, a very strong pipeline that you've discussed in the past into '24 and '25. But I'm just curious when you talk to existing customers, your existing facilities, are you seeing growth in your share of wallet? If you could give us some examples, some tangible example to kind of appreciate that.

Kevin S. Boone
Executive VP and Chief of Sales & Marketing

Yes, Fadi. I think that's directly tied to our service product. And we're in the very early innings of that. I think we've seen some customers more willing to have those conversations and others that are kind of wait and see and want to see more months or even quarters of good performance before they're willing to have that conversation. But we've seen some early success. One example that comes to mind is in our food products category where we've gone from roughly a 60% share with our customer now 90% share and doing some things operationally, thanks to Jamie and his team have provided a really, really good service to them, truck-like service that really benefits them from a cost perspective. And that's a direct truck conversion for us. But I see many, many more of those examples starting to happen.

We're working really diligently with Jamie's team and having [indiscernible] exercises with our customers. which is really thinking through the art of what's possible, putting our network against what their needs are and really figuring out if there's opportunities to grow and how we really convert the truck. I think the customer acceptance on these meetings has been the highest I've ever seen because they're looking for ways to save on costs given the uncertain backdrop on the market. But a lot of momentum -- the team is working really hard. We have a number of these set up over the next few weeks and quarters ahead. And I expect to have a lot of success.

Operator

We'll take our next question from Tom Wadewitz with UBS.

Michael Triano

This is Mike Triano on for Tom. So Trip plan compliance and carload 86 seems to be a level where you can make some good progress on truck conversions. Do you think that there are enough crew resources on the network to maintain a strong service product? Or is there some additional hiring that you have to do from here?

Jamie J. Boychuk
Executive Vice President of Operations

Mike, we've got a good number with respect to our people. We're still working on a -- like to get another 150 to 200 folks as we try to get closer to a 7,400 number, in particular, for vacation peak. We're sitting around 70% to 80%, I think, today, close to 73%. So we want to push towards that. Now remember, attrition is 10%. We've got to continue to stay up against attrition, which also gives us another trigger if something goes the other way, where we could react, as Sean mentioned, with some costs along the way if we needed to. Resource-wise, we definitely have enough locomotives out there. As a matter of fact, the faster we get the more fluid we get, we need less locomotives.

So we'll continue to analyze those resources and pull them out where we need to, but keep them in a spot where we can use them as Kevin and his team brings more business on we're able to bring them back. And of course, everything that comes back earns its keep. So we'll continue to work those resources. But on the car side, that's a strategy we continue to look at as a team. working with customers. I know Kevin and his team and my team are working close to make sure we've got car supply as we need them as we work with customers and make sure that we have the right resources on that end. At this point in time, we feel good with where we are.

But you see the growth that's coming, and Kevin talked about some of those growth areas that are out there. Maybe he wants to touch a little bit on the car side and what he sees in his discussions with customers in those resources. But other than that, -- we're in good shape with everything.

Kevin S. Boone

Executive VP and Chief of Sales & Marketing

I think, as Jamie mentioned, Joe got the team together, the sales and marketing team, along with the operations team and Sean's team and we had a lengthy discussion here recently just on what the needs are. And I'm very encouraged of we have a plan to make sure that we can meet the coming demand in some of these markets that we see great growth and whether it's aggregates some of the auto business, where we know that car supply is going to be a differentiating factor where we feel like we have a good plan in place.

Operator

We'll take our next question from Justin Long with Stephens.

Justin Trennon Long
Stephens Inc., Research Division

Sean, I think on prior calls, you talked about the elevated level of service-related costs that should moderate this year. During the call in January, I felt like you were suggesting this tailwind would be more second half weighted. But could you share any updated thoughts on the cadence of these cost savings? I'm curious if you saw this materialize in the first quarter and how you're expecting that number to trend in the quarters ahead?

Sean R. Pelkey
Executive VP & CFO

Yes. I think we're off to a good start. Like I said, we had about $15 million to $20 million of what I would call congestion related cost savings in the quarter. That was mostly -- you see that clearly on the rents line on a within PS&O related to intermodal terminals. So we are already seeing some of those costs come out, as I mentioned, sequentially into Q2. Our forecast is that we'll see that pick up a little bit. And then as we get to the second half, that's where we'll see the bulk of it, like you mentioned.

So -- and that's going to be in -- continue to be improvements in things like rents and intermodal terminals, locomotive maintenance related to the engine count that Jamie talked about, over time and other related crew costs. So -- and then on top of that, we've got other initiatives not just related to cycling some of the congestion issues from last year that we're working on. And of course, volume growth always helps in terms of productivity levels, both our crews and our assets.

Operator

We'll take our next question from Chris Wetherbee with Citigroup.

Christian F. Wetherbee
Citigroup Inc., Research Division

Maybe a question on the headcount side. Jamie, you gave some good near-term color. I guess I'm curious in the context of sort of your progress towards that 7,400 goal. And then reflecting the fact that the volume environment is maybe a little bit more questionable than it was earlier in the year. Is there a point where maybe you hit the pause button on hire and kind of reassess the volume environment? And so after the second quarter, we could see that number potentially moderate depending on the economic conditions we're seeing.

Jamie J. Boychuk
Executive Vice President of Operations

Chris. No, I'm -- listen, we -- I wouldn't say we took the pause button at all. What we've done is this time, I'd say, last quarter when we were talking, we had 550 trainees out there. We're looking to keep ourselves around 350 to 400 trainees as we move forward on a constant basis. So we dropped that number a bit knowing that we don't need to ramp up the way we were. As I said, we look at 10% as our attrition rate. So we still need to ramp up that number a little bit. And then, of course, we'll review a little bit if we need to bring that down to maybe 300 or maybe that 350 is the sweet spot.

We're always looking to reduce our attrition rate. I think in the industry for many, many years, 10% has been that rate. But of course, we're working really hard with our initiatives to see what we can do to get people to stay at the railroad. And if we see those numbers come down, then we'd be looking at our hiring needs obviously drop with that. But we're in a good spot. We're at a much better spot than where we were in the past with those numbers. I feel comfortable. And that's on the T&E side. Of course, we are still doing locomotive engineer training as we move forward.

It's the right thing for us to do, so we don't get ourselves in a situation where we're short on engineers in the future, but we recycle conductors to make engineers. And we're always hiring on our engineering side of the house and mechanical side as we continue to look at that high end on the union side. So our numbers are at a pretty good point. I don't see any large jumps at all. If anything, it's more just maintaining where we're at. And if we need to look at if things really go in a different direction. We know that we've got that 10% attrition rate. We've committed to our T&E folks that we're going to keep them [indiscernible] employed as long as we can through whatever we need to weather any storms. We don't necessarily see any storms ahead of us, but we don't know what the markets show obviously. But if we need to, we can pull that trigger on hiring really quick.

Operator

Our next question comes from Amit Mehrotra with Deutsche Bank.

Amit Singh Mehrotra
Deutsche Bank AG, Research Division

Congrats on the results really impressive. One question I wanted to ask. So if I look at intermodal revenue as a percentage of the total enterprise, it was like 13.5%, which I mean I could be wrong, but I think that's the lowest number at least this decade over the last 10 years. And so I guess I'm trying to understand, you showed good cost leverage the mix was really positive in terms of where that -- where the revenue growth came from. And so I guess I'm just trying to understand what happens to cost ex fuel as some of the intermodal mix normalize as a percentage of revenue. I don't know if you think that's a fair question or not, but it just seems like maybe that has something to do with some of the strong cost leverage.

Sean R. Pelkey
Executive VP & CFO

Yes. I mean, Amit, we don't get into sort of specific margins within each line of business. To the extent that intermodal volumes were down, which, of course, they were. You're going to see savings at intermodal terminals. We'll be able to see some savings on our crew starts. We'll have some savings on fuel -- but did that disproportionately impact our margins this year? And would that disproportionately impact them if intermodal or I should say, when intermodal recovers I don't think that's our view. We've got strong incremental margins within every segment of the business. And I think as intermodal -- as those volumes normalize and begin to grow again, it's going to have a positive impact on our operating ratio.

Operator

Our next question comes from Ari Rosa with Credit Suisse.

Ariel Luis Rosa
Crédit Suisse AG, Research Division

Congrats on a strong quarter here. Kevin, you laid out a pretty exciting pipeline of new business opportunities there. I was hoping you could maybe quantify the impact of that in terms of revenue or earnings and kind of what the time line might look like for realizing whether it's that 500 set of opportunities that you talked about, what that might look like over the next couple of years.

Kevin S. Boone
Executive VP and Chief of Sales & Marketing

Yes. I mean when you look at a number of these projects, it's going to take a couple of years, if not 3 years, to really complete some of the auto facilities that we're seeing, some of the -- on the metal side as well. So really, I think the momentum builds into 2025. aspirationally, if you ask me, it's kind of 1 to 2 points of growth that we would aspire to on a gross basis. Now sometimes some of these can cannibalize a little bit of your business, but I would like to be able to gross up a point, if not a little bit more, just from the industrial development side, given all the activity that we have as we really start to hit our stride and these projects come online.

Operator

We'll take our next question from Ben Nolan with Stifel.

Benjamin Joel Nolan
Stifel, Nicolaus & Company, Incorporated, Research Division

Actually, Kevin, I might follow up there because it is -- it's a nice list, nice map. I'm curious, as you look at that and you're competing for those projects. How much of that is competing against another rail versus actual head-to-head against trucks? Or how should we think about where the competition lies for that growth?

Kevin S. Boone
Executive VP and Chief of Sales & Marketing

Well, as you know, over the last 40, 50 years, the railroads haven't done a great job of attracting new industrial development to the railroad. So it's all about getting the word out. It's all getting investing in our team, making sure that companies understand the advantages particularly some of these new markets, when you think about battery production that is very, very new to the United States, and they need to -- they're not familiar with necessarily rail infrastructure and what we can offer. So A lot of the exciting emerging markets, that's where you have to be out in front of it and make sure that you have -- you offer the locations, the infrastructure, the energy resources that they need in order to move quickly.

And it's all about having shovel-ready opportunities that touch the railroad, which you can develop quickly. And the market is moving way quicker than it ever has. And so that's why it's key to have these industrial sites ready for those customers to go. We compete every day with our eastern peer as well. And certainly, we're learning -- leaning into the service that we can provide. We touch a lot of other good industrial companies that they want to reach. And so those all things are factors in our selling points to the customers as they make these decisions.

Operator

Take our next question from Jordan Alliger with Goldman Sachs.

Unknown Analyst

This is Andre filling in for Jordan. I just wanted to sort of follow up on the fuel piece. It looks like fuel surcharge revenue was up $121 million year-over-year, but fuel expense was only up $33 million. So the net of the 2 is an $88 million benefit to EBIT in the first quarter. I think that benefit was more like $63 million in the fourth quarter. So some acceleration here on the fuel benefit. Any expectation for, I guess, how that trends in terms of timing or magnitude, It just -- or it seems like based on the diesel strips, you might see some benefit in the second quarter still and maybe drop in the third quarter. You just sort of curious in your thoughts here and what offsets there might be.

Sean R. Pelkey
Executive VP & CFO

Thanks, Andre. This is Sean. Your math is correct. I think if you look into the second quarter and you're looking on a sequential basis, at least where fuel prices are and where the forward curve is, it will be a net drag. I would put it in the category of $50 million plus versus the first quarter on a net basis. That's the impact to both revenue and expense. But I think what you were talking about is relative to last year, in the second quarter, it will be likely a net benefit just simply because last year in the second quarter, fuel prices were going up, and we reported a negative lag in the fuel surcharge program. So we'll be cycling that, assuming no change to diesel prices versus where they are right now.

Operator

We'll take our next question from David Vernon with Bernstein.

David Scott Vernon
Sanford C. Bernstein & Co., LLC., Research Division

Sean, can you talk a little bit about expectations for average cost per hedge kind of on a year-over-year basis and add any color to how much the CTO that's been added into the benefit packages is impacting cost for full year '23?

Sean R. Pelkey
Executive VP & CFO

Absolutely, David. So on cost per employee, I think we came in right about where we expected. Maybe a little bit favorable just due to mix impact of employees with the driver count at quality, which are a little less in terms of dollars per employee -- as you go to Q2, I think it will be fairly stable versus Q1, maybe up a little bit depending on that employee mix. And then as we get into the second half of the year, you will see a step-up just due to the timing of the wage increases for the union employees, which is scheduled to be a 4% increase -- in terms of the cost of the [Sick leave], which we've now got agreements with about 10,000 of our union employees -- we are -- we have added those costs into the forecast.

The experience so far has been very positive. We are seeing the employees take advantage of the benefit, and we are seeing when that's needed. There's a little bit of additional overtime, but there are some benefits to it as well and certainly quality of life is 1 of those benefits. And on a net basis, I would say, a couple of million a quarter at this point.

Operator

We'll take our next question from Allison Poliniak with Wells Fargo.

Allison Ann Marie Poliniak-Cusic
Wells Fargo Securities, LLC, Research Division

Just going back to the share gain piece of it. Merchandise volume, you grew 4%. Is there any way to quantify or give us some perspective of what those share gains were this quarter, if any? And as we think about that spread over what the market is growing in those areas, is that 1% to 2% on top of that a pretty good guide. And would that be more of '24 for this? Or do you think you can get there in '23?

Kevin S. Boone
Executive VP and Chief of Sales & Marketing

Yes. I think a lot of the success that we had in -- particularly on the merchandise side is really the service improvement that we saw. And our ability to capture the orders that our customers have. And so that January, February were really good months, weather probably was a little bit favorable in those months as well that then certainly help us, but then Jamie would tell me, March was pretty challenging from a weather perspective. So I would say overall, normal weather through the quarter, probably a little better in January, February. But it really is about just a service recovery and our ability on a year-over-year basis to capture more of the demand that was out there even though we've seen a little bit of softness in some markets.

Operator

We'll take our next question from Walter Spracklin with RBC Capital.

Walter Noel Spracklin
RBC Capital Markets, Research Division

So I want to turn it back to Sean for a moment here. And really just related back to Jamie and Joe's comments. I mean -- and even Kevin. So Jamie has a pretty good handle on operations here. The model is working very well. Kevin is translating it into business wins and good growth opportunities. And then Joe in his outlook mentioned that asset productivity is going to exceed or approach prior record levels. when I go back and look at prior record levels, that's the time when you were hitting kind of the low 58 OR. Is that a good -- I mean is that overly simplistic to say that when you're hitting those kind of record operating record asset productivity levels that you can't achieve those type of ORs in 2023? Or is it a little too simplistic, Sean, to look at it that way?

Sean R. Pelkey
Executive VP & CFO

Well, Walter, I think you think back to the 58 OR, the first thing you've got to recognize is the quality acquisitions since then. So that's about 250 basis points of headwind. And we've had a lot of inflation. We're paying employees more. The underlying cost of contractors and materials is higher. And so those are headwinds. That being said, as we continue to run the business well and we deliver good productivity, and we get great feedback from the customers. We've got this pipeline of wins that are setting up as well as delivering against customer expectations and demands. We're going to deliver that at strong incremental margins, and that's going to help out over the medium to long term on the OR. I can't give you a specific point destination. But as we go forward, we would expect improvement from where we are right now.

Operator

We'll take our next question from Jason Seidl with Cowen.

Jason H. Seidl
TD Cowen, Research Division

Congrats on the good quarter. It's really nice to see the service doing so well here, and that was reflected, I think, in our survey that we did this quarter. I wanted to talk about your outlook and sort of what's baked in with an assumption on the West Coast ports sort of coming to a labor agreement. Are you looking for some of that East Coast volumes to shift back? And if so, how do you think it will affect operations?

Kevin S. Boone
Executive VP and Chief of Sales & Marketing

From that perspective, I don't see a huge amount of shift. You're going to continue to see you a secular advantage of the East Coast, and there's a lot of investment going on, as you know, in Savannah and other ports on the network. Quite frankly, the challenges on the West Coast have heard our intermodal business, when you think of what wants to come across through California through Chicago onto our network. So I view that as probably an incremental positive for us that some of that freight will see through the interchange with some of our Western partners out there. So that's a positive outcome in my mind in terms of our growth opportunity as we move into the back half.

Operator
Thank you. And this does conclude today's presentation. Thank you for your participation, and you may now disconnect.