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Presentation

Operator

Greetings, and welcome to the Norfolk Southern Corporation Fourth Quarter Fiscal Year 2022 Earnings Call. [Operator Instructions] As a reminder, this conference is being recorded. It is now my pleasure to introduce Luke Nichols, Senior Director of Investor Relations. Thank you. Mr. Nichols, you may begin.

Luke Nichols

Thank you, and good morning, everyone. Please note that during today's call, we will make certain forward-looking statements within the meaning of the safe harbor provision of the Private Securities Litigation Reform Act of 1995. These statements relate to future events or future performance of Norfolk Southern, which are subject to risks and uncertainties and may differ materially from actual results.

Please refer to our annual and quarterly reports filed with the SEC for a full disclosure of those risks and uncertainties we view as most important. Our presentation slides are available at nscorp.com in the Investors section along with our reconciliation of any non-GAAP measures used today to the comparable GAAP measures.

Turning to Slide 3. It's now my pleasure to introduce Norfolk Southern's President and Chief Executive Officer, Alan Shaw.

Alan H. Shaw

President, CEO & Director

Good morning, everyone. Welcome to Norfolk Southern's Fourth Quarter 2022 Earnings Call. Here with me today are Ed Elkins, our Chief Marketing Officer; and Mark George, our Chief Financial Officer. I'm also pleased to welcome Paul Duncan, who moved into the role of Chief Operating Officer on January 1. At our Investor Day last month, we shared our strategy to create long-term shareholder value through a balanced approach of reliable and resilient service, continuous productivity improvement and smart and sustainable growth. At the heart of that strategy is a service product that allows us to compete in that \$860 billion truck and logistics market and gives our customers the confidence to build Norfolk Southern into their supply chain.

I was at the Midwest Association of Rail shippers winter meeting last week, talking with customers about our new strategy. And the reactions were extremely positive. Now our job is to prove it consistently. With performance, we made great strides to close the year and are encouraged by our progress. We will continue to refine and evolve to provide a service product to market values. Service is at the best it's been in more than 2 years, and customers are noticing.

Volumes in December were at 52-week highs, outperforming typical seasonality as Ed and Paul's teams work collaboratively with our customers to attract business to Norfolk Southern, overcoming headwinds associated with a slower network in the first 3 quarters that constricted our capacity.

Our team persevered, adapted and achieved strong results in a challenging year. For both the fourth quarter and full year 2022, we were able to achieve double-digit growth in both revenue and EPS. We established new records for full year revenue, operating income, and other metrics that the team will detail later this morning.

Also this quarter, we finalized national contracts with the unions representing our craft colleagues. These agreements recognize the hard work and dedication of our frontline railroaders with historic wage increases in an unparalleled health and welfare benefits package.

With national bargaining now complete, we started discussions at the local level to address important quality of life issues. I would like to thank the entire Norfolk Southern team for their incredible effort during the fourth quarter and throughout all of 2022.

I'm proud of the improvement our team has delivered and the momentum we have created. Our relentless focus on service continues in 2023. You'll hear more from Paul momentarily about how our across-the-board improvement is now allowing us to target specific opportunities for service and productivity enhancements.

We recognize that the macroeconomic environment in which we operate is uncertain, and you'll hear more about the impact of that from Ed and Mark.

Longer term, we are building on the momentum we carry into 2023. And of course, we've charted in our new strategy.

As you heard at our Investor Day, we believe Norfolk Southern is uniquely positioned to deliver long-term shareholder value through top-tier revenue and earnings growth, industry competitive margins and balanced capital deployment. We will get there by being a customer-centric operations-driven service organization, and we look forward to sharing our progress with you.

Now, I'll turn it over to Paul for more detail on the improved service we are providing to our customers. Paul?

Paul B. Duncan
Executive VP & COO

Thank you, Alan, and good morning. I am excited to be leading the operating team as we implement the vision set forth this last quarter. My focus since assuming the role of Chief Operating Officer has been in 2 areas: collaborating with marketing and our customers to convert improved service into increased volume on the network; and getting out to talk with our field leaders about our new strategy to be a customer-centric operations-driven organization.

The team has tremendous pride in Norfolk Southern and the feedback we are hearing is overwhelmingly positive. When we talk about growth, our people hear stability and opportunity. One 40-year Norfolk Southern veteran in Birmingham told me last week, he has never been more optimistic about the direction and culture of the company.

I'll begin with a safety discussion on Slide 5. Our injury frequency rate improved 22%. Every conversation will begin with safety in 2023 and beyond. Operating safely is the right thing for our employees, customers, shareholders and the communities that we serve. This is an area where we have made great strides, but even one serious incident is too many.

Thank you to those closest to the [ballast] line for the gains we achieved in safety in 2022 and for the efforts we will all make safely delivering in 2023.

Moving to Slide 6. Since we spoke last at our Investor Day, our service is the best it has been in more than 2 years. Our leadership, the implementation of our simpler, more executable operating plan TOP|SPG and our continued resource adds have contributed to significant improvements in service for all of our customers.

For premium Intermodal, we safely delivered a perfect peak season for our largest parcel customer. Domestic intermodal performance has improved. Average container transit times have been reduced by 12 hours between Chicago and the Northeast, our largest corridor, with consistency also now meeting expectations. Merchandise performance is consistent, and this is another segment where our improved velocity is creating capacity.

Both trains are cycling at historic best transit turn times, maximizing our asset utilization across commodities. You'll note that train speed has continued to climb from our low point last year with terminal dwell also creating capacity for growth. Our service product has turned the corner, and we are focused on building further reliability and resiliency into our network that our customers expect moving forward.

Moving to our productivity update on Slide 7. We are committed to our balanced approach to service, productivity and growth. Let's start with locomotives. We have made solid progress on getting more productive use out of our fleet. You can see that here in terms of increasing our locomotive miles per day.

At Investor Day, I referenced the flywheel effect that speeding up the network will produce. This is the start of that flywheel, which produced a 6% improvement last quarter and has improved 12% so far in January. Getting our locomotives moving more efficiently ensures we are creating capacity for growth. Next, we have grown our workforce, and that has been a critical element to our service improvement. Our GTMs were flat versus last year while our training pipeline has remained above steady state levels, pressuring workforce productivity. This is a good news story looking forward as we are building the capacity we need to be reliable and resilient with the gains in service that we have made. We will build upon this foundation to drive greater workforce productivity as we bring volume back on the railroad.

Lastly, we have set another quarterly record for fuel efficiency. Our increasing fluidity certainly has played a role alongside our portfolio of fuel efficiency initiatives including our fleet modernizations and idling compliance initiatives. Improving productivity is key to our balanced plan, and we are going to continue driving sustainable efficiency gains to provide value for our shareholders and our customers.

On Slide 8, I will recap the industry-leading progress that we have made on hiring in 2022 and talk about what we see ahead. We entered the year in the very early stages of priming the conductor training pipeline and ramped up in record time, which was no easy task given the tightness in the labor market. We increased training wages, drove efficiencies into our onboarding process, jump started a grassroots campaign leveraging referral incentives and more. These efforts have paid off with much of our network reaching the

minimum staffing levels determined by our data-driven approach. We are now focused on shoring up the remaining crew bases that are short, and we are determined to do so in 2023.

As we make progress, we are deploying go teams more effectively and are executing the resiliency vision laid out at Investor Day by cross-qualifying crews and expanding training efforts.

Moving to Slide 9. I will cover a few items that we are working on as we enter the New Year. First, let's talk about the culture of continuous improvement we are building. We have greatly improved service and to bring our vision of long-term service resilience to reality. We know we have to keep getting better.

Let me provide a few examples. With Intermodal, we are using the initial rollout and learnings from our high-frequency operating plan discussed at Investor Day, along with our perfect peak season to improve capacity and reliability across our Intermodal franchise.

On the Merchandise side, we are applying continuous improvement principles, identifying and implementing those next levers that will drive even greater resiliency and resource productivity to move cars faster and more consistently. We are building tools as part of our digital transformation to provide more actionable and timely information to a more empowered workforce.

These are just a few examples of how we are driving continuous improvement into our DNA.

Next, we are slated to modernize another 115 locomotives this year, converting them from DC to AC traction technology and giving them a full rejuvenation. These 115 rebuilds will reduce locomotive hauling capability equivalent to 150 DC locomotives, providing additional capacity for growth with fewer assets. Our DC to AC conversions will continue to provide even greater fuel efficiency and added pulling power to increase train productivity further.

Our DC to AC conversion strategy will provide further opportunities to grow train size and increase train productivity, which we discussed at Investor Day. We have made marked progress on this long-term initiative. And just this month, we increased train size 53% in 1 of our 2 highest volume export [coal lanes] which will provide greater capacity and resiliency in our customer supply chain.

Next up, let's talk about our capital investments. Our best-in-class engineering team safely delivered a productive year with more than 520 track miles of rail replaced, the most NS has done in 3 decades. We installed 10% more ties in 2022 than in 2021 with the same level of production teams and our servicing teams worked 27% more track than in 2021.

We are committed to safely building and maintaining a reliable and resilient infrastructure for our customers productively. We're primed to execute on our capital plan in support of safety, resiliency, growth and productivity. This will include a longer siding between Cincinnati and Fort Wayne, which will incorporate additional resiliency into our train network. This is just one of the efforts we will highlight as the year progresses. Lastly, we were intensely focused on converting the capacity gains that we have made with TOP|SPG and our disciplined execution of the plan into additional volume moving over the railroad in 2023. Our Intermodal, Merchandise and bulk service are all now consistently performing at high levels of service across our network.

I will now hand it to Ed to expand on the market outlook and talk about how we can put this capacity to work. Thank you.

Claude E. Elkins
Executive VP & Chief Marketing Officer

Thank you, Paul. It's great to have you with us, and good morning to everyone. Let's review our results for the fourth quarter, starting on Slide 11. Overall, revenue grew 13% year-over-year to \$3.2 billion, with higher revenue from fuel surcharge and price improvements more than offsetting a 1% decline in volume. The pricing environment remains strong and we capitalize by delivering our 24th consecutive quarter of year-over-year RPU less fuel growth in intermodal and our 30th out of 31 quarters in merchandise.

Speaking of Merchandise, volumes recovered to prior year levels as service improved in the fourth quarter, enhancing our ability to drive value for our customers. Our largest gains were in the sand and proppants market to support the recent surge in demand for natural gas production followed by corn and soybeans also driven by exceptionally high demand. We saw declines in our steel and automotive markets where equipment availability was particularly challenged.

As Paul highlighted earlier, we are making meaningful progress on improving car velocity in our merchandise fleets, and we started to see the results of that increased velocity towards the end of the quarter. Merchandise revenue increased 12% year-over-year to \$1.9 billion and revenue per unit, excluding fuel, reached a record level from price gains and positive mix.

Shifting to Intermodal. Total revenue improved 10% year-over-year as higher revenue from fuel surcharge and price gains more than offset a 4% decline in volume. The volume decline was concentrated within our domestic lines of business where headwinds

from a loosening truck market and higher inventories heading into the holiday season negatively impacted demand. Conversely, our international lines of business grew in the fourth quarter. Our international intermodal volume rose 5% year-over-year as several of our customers shifted back to Inland Point Intermodal services amid lower ocean rates and easing supply chain congestion.

Total intermodal revenue per unit and revenue per unit, excluding fuel, were up year-over-year on higher fuel revenue and price gains.

If we turn to coal, our results for the quarter reflect both our success in capturing upside revenue potential from the market dynamics as well as our ability to create capacity for growth through improved service.

Coal revenue for the quarter increased 28%, driven by price gains, volume growth, higher revenue from fuel surcharge and liquidated damages from prior volume shortfalls. Both revenue per unit and revenue per unit, excluding fuel, reached record levels, reflecting the value of our market-based pricing approach in these volatile energy markets. We were able to leverage increased equipment availability from improved cycle times to capture more utility coal business, which led to a 9% volume gain in utility coal in the fourth quarter.

Our export coal markets also grew due to higher demand driven by geopolitical conflict. Overall, coal volumes increased 8% in the quarter, and this volume growth was partially offset by year-over-year declines in coke shipments resulting from facility closures.

Let's move to Slide 12 for the full year of 2022. Total revenue for the year reached \$12.7 billion, a 14% increase from 2021 driven by higher revenue from fuel surcharge and price gains, partially offset by volume declines. We delivered record level total revenue and revenue less fuel, revenue per unit and revenue per unit excluding fuel, despite a 3% decline in total volume. Volume headwinds were strongest in our intermodal franchise, where a weakening truck market and supply chain congestion led to declines in annual volume.

We saw growth in our coal business as a strong export market and a strong global market for energy increased volumes for coal on NS. Our performance as the year progressed into 2022 provides evidence that our recovering service product is providing momentum to the commercial side of our business. We're working together internally to enhance our offerings in the marketplace and to ensure that we are delivering the value our customers need to be successful.

Lastly, if you will join me on Slide 13, our outlook for 2023 is cautiously optimistic amid uncertainty in the macroeconomic environment and some signals of a slowdown in activity. Our improving service levels will drive opportunities for modal conversion from truck and increase our capacity to address unmet demand. At the same time, economic conditions could be a headwind to volume at least in the near term, while lower fuel prices and accessorial revenues will temper our revenue per unit.

Within Merchandise, we anticipate that macroeconomic conditions will pressure a variety of the markets that we participate in. We're mindful of recent weakness in industrial production, particularly with respect to manufacturing, and that drives many of our markets. Current forecast for manufacturing in the U.S. shows contraction in 2023 as businesses rightsize inventories to demand.

Additionally, the weak housing market will be a headwind to many of our industrial businesses and we expect this weakness to persist in 2023 as the housing market adjusts to higher interest rates. Volumes will also be supported by increased equipment availability and overall network fluidity.

Looking at Intermodal, volume growth will be dependent on the macroeconomic environment, although our improving service levels will create capacity for growth. Total revenue will be pressured by lower fuel surcharges and reduced storage revenue as supply chains continue to normalize throughout the year. Household balance sheets are supported by excess savings accumulated during the pandemic and credit remains available for many despite becoming more expensive.

And so long as the U.S. consumer remains resilient, we would expect supportive demand for Intermodal. Weakness in the truck market at the start of the year, along with housing will be a headwind but we anticipate the truck market to rebalance supply and demand later this year.

Our international business will continue to benefit from lower ocean rates and improving supply chain fluidity at Inland Points, prompting a return of our customers to Inland Point Intermodal.

Turning to coal. The current outlook for the utility and export coal markets supports a flat to modest year-over-year volume improvement. While overall utility demand is likely to remain flat, our capacity to handle more of that demand will increase with efficiency and productivity improvements on our network. For export, Norfolk Southern will benefit from additional coal supply coming online despite softening seaborne prices. We expect the global supply of met coal to continue to be restricted by geopolitical factors which should support demand for U.S.-sourced coal. We will experience tough coal pricing comps in the first half of the year, which will pressure export met RPUs on a year-over-year basis.

Overall, we are energized by our recent momentum heading into '23, and we are focused on leveraging that momentum to drive value for our customers and grow our business. Uncertainty and downside risks are certainly still present, but we're going to continue to focus on the things that we can control to successfully execute our strategic plan and deliver results for our customers and for our shareholders.

And lastly, I'd like once again to recognize our customers for their partnership throughout 2022 and thank them for their business. We appreciate all of their support as we move forward in 2023 with sustained momentum towards delivering the service product that they need to succeed.

I will now turn it over to Mark for an update on our financial results.

Mark R. George
Executive VP of Finance & CFO

Thank you, and good morning, everyone. I'm on Slide 15. As you heard from Ed, we had another quarter of strong revenue performance, up 13%. Operating expenses in the quarter were up \$333 million or 19% year-on-year, driven primarily by elevated fuel prices and some significant adverse accrual adjustments that I will describe shortly which had an outsized impact on the operating ratio.

Operating income at \$1.18 billion set a fourth quarter record. EPS was \$3.42, up double digits year-over-year.

Moving to Slide 16. Let's reconcile the drivers of the changes in operating income, operating ratio and earnings per share. Talking specifically to operating income, the \$52 million improvement was aided by the first row in the bottom section, a favorable wage accrual true-up related to our commitment to getting retroactive wages distributed to our employees before the end of the year. It was not only the right thing to do, but the acceleration created the added benefit of saving payroll taxes for employees as well as for the company.

That adjustment provided a \$16 million expense savings, which equates to 50 basis point tailwind to the OR and a [nickel boost to EPS.] But in the second row of the reconciliation at the bottom, you will see that there was a \$57 million expense headwind from numerous unexpected adverse items in the claims category that I'll put in 3 buckets.

Accrual adjustments related to personal injury reserves based on actuarial studies, adjustments to environmental reserves based on activity and costs associated with derailments that occurred during the quarter. Combined, these adverse items versus a smaller positive adjustment last Q4 result in \$57 million of year-over-year headwind in the fourth quarter, which equates to 180 basis points OR drag and \$0.19 of EPS.

Absent those 2 reconciling items I just detailed, core operating income growth was actually \$93 million and that translates to EPS growth of \$0.44. The OR contraction at 180 basis points reflects lower incrementals driven by the net inflation impact as well as service-related costs.

So let's drill into the operating expenses for the quarter now on Slide 17. Fuel was again a primary expense driver this quarter, up \$141 million or 62% due to elevated fuel prices. Materials & Other was up \$78 million, which included the \$71 million increase in claims that was heavily impacted by the items we just discussed. Compensation and benefits were up \$55 million or 9%, driven by elevated wages from the new labor contracts as well as higher employment levels.

Purchased services were up \$48 million or 10% in the quarter, driven primarily from continued inflationary pressures, costs related to our service environment as well as technology-related costs as we progress our digital transformation. Some of the inflation impacts are associated with intermodal operations that more than offset savings from lower intermodal volumes.

Depreciation was up \$11 million year-over-year, consistent with prior quarters. But let me point out that we are nearing completion of our periodic roadway depreciation study and the findings will result in a quarterly step-up in our 2023 depreciation expense. You can expect in 2023 that the quarterly year-over-year growth will be around double what you see here, meaning that the full year impact will be a step-up in the \$40 million to \$50 million range.

Shifting to Slide 18. Let's look at the results below the line. After spending much of the year as a net expense, other income flipped back to a more normal profile and amounted to \$34 million, an increase of \$13 million over last year. Net income in the quarter was up \$30 million or 4%. EPS growth at 10% exceeded the net income growth due to strong share repurchase activity.

Turning now to Slide 19 and looking at the full year results. EPS was \$13.88, an increase of \$1.77 or 15% relative to 2021, driven by record revenues of \$12.7 billion, which was up 14% compared to 2021. As you look at the full year OpEx and operating ratio headwinds versus prior year, recall the adverse impact of the wage settlement.

Moving to Slide 20. Property additions at \$1.9 billion ended the year exactly as we had been guiding. We had another strong year for shareholder distributions with over \$4 billion returned again in 2022, with over 12.6 million shares repurchased. Dividend distributions were up 14%, and you will have read about our Board just approving a 9% or \$0.11 increase to our quarterly dividend here in the first quarter. All this demonstrates our commitment to return capital to shareholders.

And with that, I'll now turn it back over to Alan.

Alan H. Shaw
President, CEO & Director

Thanks, Mark. Let's turn to Slide 21. Our outlook for 2023 reflects the uncertainty of a challenging macro landscape in which the path of the demand environment and inflation are unclear. At this time, we see full year revenue level with 2022 performance. We expect to be able to absorb volume pressure with share recapture. Thanks to our improving service product. RPU will be down to flat as we deal with pressure from softening coal pricing, lower fuel surcharge revenue and the eventual unwinding of accessorial revenues as supply chains unlock.

RPU will benefit from another strong year in core pricing gains. There are a lot of variables that are hard to predict in this uncertain environment. But in a flat revenue environment, it will be difficult to grow operating income in 2023. With the cost benefits from an improving service product being more than neutralized by inflation as well as the RPU headwinds I just described. As you heard from Mark at Investor Day, we're expecting CapEx to be roughly \$2.1 billion for 2023. This is consistent with and supportive of the balanced and disciplined spending plan that Mark detailed in December. Despite the uncertainty, we entered 2023 with great confidence and momentum. When we look ahead, we see more than cyclical economic challenges in front of us.

We see long-term macro trends that create opportunities for a franchise built for growth like Norfolk Southern. We have the right strategy, balancing service, productivity and growth. We have a strong and still improving service product. We have the right team of talented, dedicated railroads, and we are just getting started. We will now open the call to questions, operator?

Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of Tom Wadewitz with UBS.

Thomas Richard Wadewitz

UBS Investment Bank, Research Division

Yes. Great. Wanted to see if you could offer some more, I don't know, some more detail, some additional perspective on the yields, revenue per car in intermodal and also in coal. I guess on intermodal, you sound pretty constructive, but just wondering if on domestic intermodal, you see some flow-through of potentially lower market pricing into what you get paid or whether you think your contracts protect you on that?

And then I guess on coal, just a little more detail on the kind of how we ought to model things given some of the puts and takes.

Alan H. Shaw

President, CEO & Director

Tom, I'm going to turn it over to Ed and let him address your questions on our yield and RPU.

Claude E. Elkins

Executive VP & Chief Marketing Officer

You listen to some of our customers on their earnings calls, and you've heard their outlook. It's no doubt it's a loose truck market right now. I'm not going to get into any individual contracts. But we see some, what I would call, green shoots out there in terms of bottoming perhaps in the spot market, it's reached what we think is a sustained bottom for the last few weeks. We've also seen a decrease in the total number of motor carriers that are licensed in the U.S. We think that's a very positive development sustained for the last 3 months. And export of used trucks is continuing to increase. So as we go forward, I think that we reached a point of stability and the market is going to rebalance, we feel okay about RPU going into -- and our opportunities for RPU going into '23 in the market space for truck.

On the coal side, fourth quarter, we had a liquidated damage claim, which beefed up that RPU in the fourth quarter. Looking forward, as you can see the forward curves just as well we do, we're going to have a tough comp and a tough road to hoe, particularly in the second quarter, in terms of comparisons. But there's still support out there for export met coal in the market, and we're going to handle more utility coal than we did last year.

Thomas Richard Wadewitz

UBS Investment Bank, Research Division

Can you ballpark the LD impact in 4Q? Just frame it a little bit for us.

Claude E. Elkins

Executive VP & Chief Marketing Officer

I think without the LD, you would have seen a slight downward RPU sequentially.

Thomas Richard Wadewitz

UBS Investment Bank, Research Division

Downward -- sequentially, okay. Great.

Operator

Our next question comes from the line of Jordan Alliger with Goldman Sachs.

Jordan Robert Alliger

Goldman Sachs Group, Inc., Research Division

I think you mentioned on the call at the end that with the macro backdrop, it might be tough from a full year perspective to grow EBIT dollars. I'm just sort of curious, as you think about your big picture outlook. Is there a differential first half, second half? Do you expect EBIT growth to be possible at some point as we move through the year?

Alan H. Shaw
President, CEO & Director

There are, as you noted, a lot of uncertainties out there and some cross-currents. There's some tailwinds for us, but also we've got a number of headwinds and Ed just articulated a couple of those rate pressures. I'm going to let Mark talk a little bit about the cadence of what we're seeing through the year on revenue and expense.

Mark R. George
Executive VP of Finance & CFO

Yes, really, it's going to depend a lot on the way the top line evolves. And if, in fact, there is a recession that we have to deal with, with some demand destruction. But as we think about -- we've got a lot of tailwinds in the year, including really strong core pricing that we anticipate as well as fuel efficiency. We had 3% fuel efficiency this year. We expect another good year next year. And I do expect that we'll have a wind down of some of the service-related costs now that our service product has improved.

However, that would probably start to manifest more in the back half. And then, of course, we'll have the absence of some of the -- the wage adjustment that we booked in the third quarter related to prior years. And this quarter, I would expect that big claims impact that we had in the fourth quarter was truly anomalous, and I wouldn't expect it to be of repeating nature at all. So those are some of the tailwinds as we look into the year.

But we are swimming against some pretty heavy headwinds. As we talked about on the call, we do have meaningful inflation to absorb, including the wage increases. And we've got some level of diminishing coal RPU and accessorial revenues as we go through the year, again, mainly in the back half. And then the depreciation step-up that I mentioned, which will be more evenly spaced throughout the year. So -- but again, a lot of good tailwinds. We've got good core pricing and -- but the headwinds are kind of what I laid out. The biggest variable is really going to be volumes. So how much we get when.

Operator

Our next question comes from the line of Chris Wetherbee with Citigroup.

Christian F. Wetherbee
Citigroup Inc., Research Division

Maybe I can pick up on that last comment. So in terms of the volume, I know you expect to be able to get some share recapture here. Do you think that ultimately yield a positive volume outcome for the year? And I guess, Mark have been helpful in terms of laying out the OR expectations, particularly a little bit more close in. So certainly, I would love to understand sort of your view on the potential for OR improvement or maybe holding the line in 2023. But if not, maybe sort of first quarter, first half sort of how do we think about how things are trending out, just given some of the puts and takes you just outlined.

Claude E. Elkins
Executive VP & Chief Marketing Officer

I'll take a swing at it. This is Ed. We finally have our service back to a place where we were able to take on additional volume. And we're seeing the benefits of that improved service right now. So yes, I think we're going to be able to claw back some volume and in fact as I'm certain of it. The question I think that we're all trying to answer is, can we claw back enough to overcome the demand destruction that's present or might be present in the market in '23. I know I don't have to, but just to give you a flavor for what we look at -- you start with inflation, you go to interest rates and what that is doing to many markets, including housing, which is very important for our business. We've seen manufacturing inflect in the past 3 months to a negative, there's a lot of uncertainty. The way I would describe our position is we are guarded, but we are poised for opportunity. We have the right service right now. We're building the capacity as soon as the opportunity manifests itself, we're going to be able to deliver.

And when I think about what are the positives, the tailwinds for us, service recovery starts right there, which leads to network fluidity and capacity improvement, there's some chance that there might be a soft landing. There's a lot of people that think there could be. The customer that we talk to, our customers, they're poised for growth. They want to grow. They're investing for growth. And we're going to look at all those factors, and we'll be ready.

Mark R. George

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Executive VP of Finance & CFO

Yes. And Chris, we don't really want to get into quarterly OR guidance because there are a lot of variables. But I can just point you back to the tailwinds we talk of. Right now here in the first quarter, we're going to have probably a pretty good compare given where volumes were last year. So I think that's -- that will be -- that will probably represent one of our better year-over-year quarters, but we're really looking at a very uncertain outlook here in the second and third quarter. And we don't want to get into projecting right now at that level of granularity.

Operator

Our next question comes from the line of Amit Mehrotra with Deutsche Bank.

Amit Singh Mehrotra

Deutsche Bank AG, Research Division

Mark, just a couple -- just quick follow-ups for me. So one, the flat operating income translates to EPS growth this year. I suppose you can still eke out some earnings growth under that scenario given maybe some share repurchase and then the other income kind of coming back. If you could just talk about that?

And then totally get the uncertainty and it's one of the most uncertain that I've ever seen. But I wanted to ask you about what you can control, which is the OpEx base ex the fuel. So you mentioned the depreciation step up, you have some visibility on labor per the PEB or the agreement. I also think you said in the past, there's like \$40 million a quarter of inefficiencies that you endured last year. So I assume that some of that can unwind.

So I'm just trying to understand how do you think the OpEx base ex fuel moves relative to that \$6.4 billion that you did in 2022. So EPS growth relative to EBIT growth and then OpEx base ex-fuel expectations for '23?

Mark R. George

Executive VP of Finance & CFO

Thanks, Amit. I think if you go back to our financial framework, we would expect that if we have kind of flattish earnings that EPS growth should exceed that and be positive, for sure. So that just fits right into the framework we talked about back in December at Investor Day. The \$40 million ex -- sorry, the \$40 million of service-related costs will start to unwind here. I mean right now, we've got much improved service, although we are spending money to compensate for the fact that many of our locations are still below minimum staffing levels. So there is still a fair amount of overtime, reworks and incentives out there. But as the head count starts to increase in many of those core locations, I do expect towards the back half, especially that these costs will start to unwind from the \$40 million per quarter significantly lower, like I said, more into the back half. And then we've got inflation in a lot of the other P&L line items, but we're working to mitigate a lot of those costs through more stringent control.

I think equipment rents, as an example, that's one area where higher network speed, that should help us try to keep a lid on the growth on equipment rents. And even purchase services is an area where we've had a significant escalation due to the cost of service as well as inflation impacts. As inflation moderates, I do believe that, that will come under control as well.

Operator

Our next question comes from the line of Allison Poliniak with Wells Fargo.

Allison Ann Marie Poliniak-Cusic

Wells Fargo Securities, LLC, Research Division

Just want to go back to the comment on labor and the crew bases. I know you said you were targeting stopping those at a minimum level. Any way to quantify is it sort of less than 10% of those at this point that you need to go? And then I guess with respect to that, staffing levels at the bases that are fully staffed, are you starting to look at maybe building incremental staff there to potentially capture any inflection as we go forward given the growth opportunities?

Alan H. Shaw

President, CEO & Director

Yes. Allison, we had talked about in the fourth quarter a number that was about 1/4 of our crew base is below minimum staffing levels. It's roughly in that neighborhood right now. And frankly, as we move forward, it's going to be highly dependent upon where we see markets headed in overall demand. So we are continuing to hire into our environment or into that environment, pardon me.

Our conductor training pipeline remains very robust. And certainly, you've seen the improvements in our service product as we've addressed both resources leadership and plan, and our service is now the best it's been in over 2 years. Paul, why don't you talk a little bit more specificity on what we're doing with respect to our craft colleagues.

Paul B. Duncan
Executive VP & COO

Yes, absolutely, Alan. As you stated, we remain on pace to continue and hit our hiring targets. And as Ed alluded to, we're going to continue to match that towards the forecast as we go. As we've come out of the contract negotiations, now it's a matter of focusing on what the future looks like as far as conductive redeployment, predictive work schedules as well as quality of life and those discussions are taking place as we speak.

Operator

Our next question comes from the line of Justin Long with Stephens Inc.

Justin Trennon Long
Stephens Inc., Research Division

I wanted to see if you could give any additional color on the potential impact from accessorial fees winding down this year. And Mark, maybe compare the timing of that wind down to the timing of the moderation in the service-related costs that you talked about? I'm just trying to figure out what the net impact from that could be over the balance of this year.

Claude E. Elkins
Executive VP & Chief Marketing Officer

This is Ed. Thanks for the question. We look at this very carefully along with our customers and stakeholders. When we look globally, we see that the congestion at the ports at both coasts has really alleviated itself. And that's also true at most of our intermodal ramps on the inland side. But you look at good spending in the U.S., which has plateaued for the consumer, but it's plateaued at a level that essentially is where we should be in like 2025 or 2026. So there's still a tremendous number of goods being brought into the country, trying to fit through a pipeline that was designed for arguably 2023. And so that congestion still exists in some places, really around the warehousing on the Hinterland and Inland locations. We think it's going to unwind. In terms of the timing of that unwinding we're watching very carefully. We think it will happen in '23 at some point.

Mark R. George
Executive VP of Finance & CFO

Yes, Justin, probably more like the back half, and it won't be necessarily precipitous the way we're assuming. But I would say it's roughly on par with kind of the timing we're thinking about the relief on service-related costs as well.

Justin Trennon Long
Stephens Inc., Research Division

That's helpful. And any color on the net impact from a dollar perspective.

Mark R. George
Executive VP of Finance & CFO

No, no. Once you start getting out that far, the margin for error is too big.

Alan H. Shaw
President, CEO & Director

I mean we'll lose accessorial revenue, will gain in freight revenue because our customer supply chains will be more fluid, and we'll be able to move more business.

Mark R. George
Executive VP of Finance & CFO

That's right.

Operator

Our next question comes from the line of Scott Group with Wolfe Research.

Scott H. Group
Wolfe Research, LLC

I just want to make sure I'm understanding the guidance right. So it sounds like flattish revenue, not growing operating income, but not really declining a lot. So sort of flattish revenue, flattish operating income, flattish OR, plus or minus a little bit, but no big growth or declines. Is that ultimately what you guys are trying to say at this point? I just want to make sure I understand that. And then just -- one just -- thing I just want to clarify, where do you think head count goes from the January levels you gave us in the slides?

Alan H. Shaw
President, CEO & Director

Scott, this is Alan. Thanks for the question. Yes. Flattish is in the ballpark for revenue. I think Mark talked a little bit about some of the cross-currents that we have, both on the top line and on the expense category.

Can you repeat your second question? We had a break up quite -- a little bit in the middle. Yes, associated with head count.

Scott H. Group
Wolfe Research, LLC

Yes. Just where do we go from the January levels you have in the slides.

Alan H. Shaw
President, CEO & Director

Paul, why don't you talk about that?

Paul B. Duncan
Executive VP & COO

Yes. Scott, as of this morning, we're north of 7,500 T&E. And our target right now for May is to be in the 76-plus -- 7,600-plus range. And as stated earlier, we'll continue to adjust that target as we see the markets play out.

Operator

Our next question comes from the line of Brandon Oglenski with Barclays.

Brandon Robert Oglenski
Barclays Bank PLC, Research Division

So I guess, Alan or Mark, I mean, we just had your Investor Day a month ago where you guys talked about resiliency, and I don't think anyone's faulting you here for a weak macro. But is this the environment where you want to build in the resiliency into the network, maybe kind of piggybacking off that view on head count. Is this where you add in capacity and really look to set up for growth potential in '24 and beyond?

Alan H. Shaw
President, CEO & Director

Yes. This is exactly what the environment we were contemplating. Here we are, we're continuing to hire. We're hiring aggressively. We need to because in some locations, as we talked about, were short of crews.

Resiliency is also about investing consistently in our assets, which includes our technology, it includes locomotives, track, intermodal terminals. It includes freight cars designed to help us compete with truck. And it includes -- yes, it includes our people as well. It also includes processes and a continuous improvement plan as we lift our service, is the best it's been in over 2 years. But we're not stopping there. We're going to continue to evolve our product and we're going to continue to improve. And we're looking a couple of years out, how do we position ourselves so that our customers can compete and grow and we can compete and grow with them.

Operator

Our next question comes from the line of Ravi Shanker with Morgan Stanley.

Ravi Shanker

Morgan Stanley, Research Division

Two-parter, if I may, please. You said that you expect share gains to offset some of the natural macro volume deterioration. Can you help us understand how much of that is "in the bag" with kind of new contract wins or kind of contracts you've have signed versus prospective as your service improves?

And second question is, there has been some chatter on regulatory scrutiny on train length obviously, is a big part of TOP/SPG and also for some of your peers. Can you talk about kind of how real that risk might be over time?

Claude E. Elkins
Executive VP & Chief Marketing Officer

Thank you, Ravi. For volume, we are going to -- we are producing a service that's allowing us to take back share that should be on Norfolk Southern. And that includes from the highway. And that's where we're really focused. It's how can we add value for our customers so that their top selection is Norfolk Southern. And over the past couple of years, our customers have to make difficult decisions. And we are helping them come back to the place where we can add the most value for them. And we're confident, sure there's going to be lots of macro headwinds, but we're seeing it now, we can earn back some of that freight even in a down environment.

Alan H. Shaw
President, CEO & Director

Yes. Ravi, let me talk about the regulatory environment, if you will, for just a second. What we -- we're fully engaged with the STB. We've met with 4 of the 5 members just since our Investor Day on December 6. And they're really encouraged. What we told them as we spoke with them last year is we were fully committed to restoring service. They've seen that. They see it in the metrics, and they hear it from our customers as well. And now, they're seeing us start to grow a little bit. And so we're aligned with them, and we're delivering on our promises for service and our promises to help our customers compete and grow.

Operator

Our next question comes from the line of Walter Spracklin with RBC Capital Markets.

Walter Noel Spracklin
RBC Capital Markets, Research Division

Just coming back on the trucking market, your long-term approach to gaining share against truck through higher service and just curious whether with the capacity, the slippery capacity and pricing environment that you're seeing right now and should that persist? Does that provide you with a significant challenge with regards to gaining market share given that price dynamic? And I know at least 2 of your competitors have started acquiring trucking companies, CN bought H&R and TransX, and then [indiscernible] CSX buy Quality. Is that something that you would envision doing as a way to offset some of that challenge by buying a trucking company and then converting it to rail? Is that something you'd consider? Just curious as to all that -- how that pertains to your long-term strategy?

Alan H. Shaw
President, CEO & Director

Walter, let me address the second question first, then I'll turn it over to Ed on how we compete with truck. Look, we got a franchise built for growth. And there are a lot of unique strengths about Norfolk Southern's franchise, the markets we serve and the customers with whom we are aligned. And so we are extremely confident and our ability to deliver organic growth. And we laid out that investment thesis in our Investor Day. Ed, why don't you talk about how we're going to grow and compete with truck.

Claude E. Elkins
Executive VP & Chief Marketing Officer

Sure. Well, first of all, we have a fantastic partnership with our key customers. And that includes our key customers in that trucking space. I say all the time, we are not competing against trucks. We're competing against the highway. Truckers are our customers and that's a great place to be.

Sure, the current environment is challenging, but we've been there before. We've seen these cycles play out time and time again. The market is rebalancing right now. And I think when you look out past '23, it's clear that rail intermodal, specifically on Norfolk Southern is going to be a very compelling place to be for customers. We talk all the time internally about all the innovation that's going into reducing the carbon footprint for transportation. But if you want to reduce your carbon footprint by about 70% to 90%, just

put it on a train on Norfolk Southern. It's the easiest way to do it. So we think the value prop long term is compelling. And even in the short term, we think we are very well positioned to compete with our customers.

Operator

Our next question comes from the line of Jon Chappell with Evercore ISI.

Jonathan B. Chappell

Evercore ISI Institutional Equities, Research Division

Ed, circling back to yield a little bit. I mean identifiable headwinds of fuel and accessorial unwinds are very clear. It sounds like you think the core can still offset a lot of that, which has been really Norfolk's bread and butter for the last several years. But in this loosening truckload market, weaker economic backdrop, are you finding that there's any areas where your pricing power is coming under pressure a little bit due to customers' unwillingness especially in the loosening truckload market as we think to intermodal?

Claude E. Elkins

Executive VP & Chief Marketing Officer

I think what makes me optimistic about our ability to continue to price in the same way that we have for years and years is the increasing value of the service that we're providing. Right now, we're producing a service that is very valuable to our customers we're supplying capacity that allows them to move that freight from the highway back to the railroad.

And you know what, we're going to continue to develop and enhance that value just like Alan talked about. We're not stopping in terms of understanding what our customers need and what sort of service will provide value to them. We're really looking at the 3-, 5-, 7-year horizon on how we can deliver value for our customers, that's how we're going to continue to produce the results that we have so far, and we're confident in that.

Jonathan B. Chappell

Evercore ISI Institutional Equities, Research Division

So does that mean core is a little bit stickier than in intermodal since there's more intermodal conversion potential there as opposed to maybe economically sensitive merchandise?

Claude E. Elkins

Executive VP & Chief Marketing Officer

You're breaking up just a [hair.] Can you repeat that?

Jonathan B. Chappell

Evercore ISI Institutional Equities, Research Division

Yes, does that mean that core is maybe a bit stickier in intermodal, given the potential for share gain as opposed to more economically sensitive merchandise?

Claude E. Elkins

Executive VP & Chief Marketing Officer

I don't know. I think when I look across the markets that we serve, I think we've got potential to continue to produce -- leaving coal out of this for the time being because of the year-over-year headwind. We've got a great track record. We're going to continue to do that.

Operator

Our next question comes from the line of Brian Ossenbeck with JPMorgan.

Brian Patrick Ossenbeck

JPMorgan Chase & Co, Research Division

One for Mark. Can you just give us a little bit of color on the average comp per employee going forward? Obviously, this quarter, you got the accrual, the incentive comp tailwind. You probably got some mix of new hires still in there. So any color you can provide on the OpEx side when we look at that throughout the rest of 2023 would be helpful. And then for Paul, I know we're talking a lot about grounded conductors in the headlines, and this is a big thing that's starting in the industry. But maybe you can just level set the time line that you think this could progress to the extent you can offer one because it does seem like it's a new event, but obviously, I think,

at least take quite a bit of time for this to really get past pilot program and implementation to be more meaningful that we might see something live and in the field?

Mark R. George
Executive VP of Finance & CFO

I'll start with the comp and ben per employee. Brian, we ended pretty much where we had signaled we'd be on a per employee basis, excluding the adjustment there that deflated it a little bit. I would expect in '23, you'll see that number step up in Q1, like we talked about due to the payroll tax resets, and it will probably be in that 35 and change range. And while it would normally step up again in Q3 due to the wage accrual or the wage increases that take effect there in the third quarter. That will probably get offset to a large degree by the unwinding of some of these service-related costs. So I would expect kind of flat in that 35,000 and change territory throughout the year. Paul?

Paul B. Duncan
Executive VP & COO

Yes. And just adding to the second question on that. As we stated, national bargaining was complete here in December. We've already begun negotiations with our labor unions on conductor redeployment. From the fact of the time line we're in negotiations, but there's certainly a regulatory piece of this. But as we have the discussions and we think about the long-term future of where we want to be, there are benefits from a predictive work standpoint. There are certainly benefits from a work-life balance and quality of life standpoint that have been challenges in the industry for a number of years that we feel get addressed through some level of conductor redeployment. So we think there's a compelling reason certainly for the industry and the regulations to move forward in support of conductor redeployment.

And certainly back to what Ed was talking about. We have to continue to find through our balanced approach of service productivity and growth, those next opportunities to drive greater value for our customers and bring that volume on our railroad. So we think that's all a part of our value proposition in the long term.

Brian Patrick Ossenbeck
JPMorgan Chase & Co, Research Division

And do you think you could see a pilot program for one of those initiatives starting this year? Or is that a little too soon to expect?

Mark R. George
Executive VP of Finance & CFO

It's too soon to say at this point. We're ongoing in negotiations. We want to have those discussions first and cross that bridge when it comes.

Operator

Our next question comes from the line of Cherilyn Radbourne with TD Securities.

Cherilyn Radbourne
TD Securities Equity Research

I was hoping you could speak to the kind of visibility that you have in automotive for 2023? And how far out you think that goes? And perhaps looking at a little further, you could also comment on any changes that you anticipate in that franchise as far as routing, et cetera, as the industry converts to electric vehicles?

Claude E. Elkins
Executive VP & Chief Marketing Officer

Sure. There's clearly a bow wave of unmet demand out there for automobiles in North America. And the industry is really focused on delivering and trying to work that off. We are too. We've invested in new cars for that fleet, and our fluidity has improved significantly. We are continuing to refine that. That's going to offer us the opportunity to help our automotive customers meet some of that unmet demand.

Going forward, I think it takes a while to work that off. I don't know that it ends this year.

Turning to the question. I think your question was about EVs and future supply chains. We've seen a tremendous amount of investment in new capability for whether it's EVs, construction, whether it's battery construction, whether it's battery recycling, there's a tremendous amount of interest out there and some investment going forward that we are working to make sure that we can support.

Operator

Our next question comes from the line of Ariel Rosa with Credit Suisse.

Ariel Luis Rosa
Crédit Suisse AG, Research Division

So I wanted to ask about the state of labor relations as you see it. To what extent has it moved -- or has it improved since moving past the PEB? Obviously, negotiations had gone a little bit contentious, but wanted to hear your perspective on if that's improved since then? And then to what extent do you think you might have to make further concessions on benefits or sick leaves or anything around that sort of thing? And then given the benefits you're describing around kind of the flywheel effect and the service improvements that you're seeing, I'm wondering if volumes do come in a little bit weaker than expected for this year, given the aggressive hiring, what do you do with those excess employees? Or do you see yourself in an environment where maybe you have a little bit more head count than what's needed and what do you do with those employees?

Alan H. Shaw
President, CEO & Director

I'll address part of that and then turn it over to Paul. Now that we're done with national negotiations, we can turn to local negotiations in which we are collaborating with our craft colleagues to modernize our labor agreements to improve their quality of life, enhance operational flexibility and provide more predictable work schedules. That benefits us, that benefits our craft colleagues and benefits employee engagement. And we're seeing that as we get out into the field and talk to our employees about the future of Norfolk Southern, a balanced approach on service, productivity and growth. In respect to what would happen were we to enter into a downturn, that is factored into our thinking. And it certainly provides an opportunity for enhanced training and enhanced flexibility for our employees.

Paul, do you want to talk a little bit about what you're seeing out in the field?

Paul B. Duncan
Executive VP & COO

Yes, Alan, I mean, you touched very well on the very first level -- the lever would certainly be investing in our workforce, cross qualification, extended training [ex board] consolidations, et cetera, where we have opportunities there. But we also have the lever of attrition. And we've seen what has taken place in the industry with furloughs. We just have not seen furloughs come back. It's very expensive in the long term, and we do not see that as certainly one, if any lever that we want to pull. We want to ensure, again, if there is a volume downturn, we are in a position as that volume comes back to handle it and handle it well. So that is how we are going to approach a downturn in potential volume.

Operator

Our next question comes from the line of Bascome Majors with Susquehanna.

Bascome Majors
Susquehanna Financial Group, LLLP, Research Division

If you look at the senior management incentives, they've recently been very much in the short term tied to OR and operating income with the long term tied to returns on capital with the TSR multiplier. At the Investor Day a few weeks ago, Annie Adam said that she was working with the Board to really redo the incentives both for senior management and for some other employees subject to the incentive program to really align with this new strategy that you guys laid out for us a few weeks back. Can you talk a little more about the changes that are being made and what you're doing at the compensation structure level to really encourage the behavior you're looking for in the long-term strategy?

Alan H. Shaw
President, CEO & Director

Bascome, thanks for the question. We are -- as Annie noted, we're in discussions with our Board to make sure that our compensation plan is aligned with our strategic goals. We've always done that, right? And as we noted at Investor Day, our strategic goal is to deliver top-tier revenue and earnings growth through industry competitive margins and a balanced capital deployment.

Mark R. George
Executive VP of Finance & CFO

And I think you'll end up seeing in '23 that the structure has been amended a bit to reflect the alignment with our strategy.

Bascome Majors
Susquehanna Financial Group, LLLP, Research Division

Can you talk a little more specifically about those changes?

Mark R. George
Executive VP of Finance & CFO

Not right now, we can't. No.

Still in discussion with the [indiscernible].

Operator

Our next question comes from the line of Jeff Kauffman with Vertical Research Partners.

Jeffrey Asher Kauffman
Vertical Research Partners, LLC

There were a lot of odd issues that occurred this year, and I think you hit some of them in terms of accessorials and in terms of liquidated damages. I'm kind of curious, with the big shift that we saw with West Coast to East Coast shipments from customers and now we're dealing with this inventory overhang. How do you think that affected your business in the Eastern U.S. Is it better for you if these containers dock in the West and get handed over in Chicago? And do your customers see a return to the West Coast at some point this year, maybe when that labor situation settles is? My understanding is it still tends to be a little cheaper to dock West than East. Just kind of curious how you thought that, that shift that's probably a little more transient impacted your business?

Claude E. Elkins
Executive VP & Chief Marketing Officer

This is Ed. Thank you for the question. I love talking about the business. The shift from West Coast to East Coast has been ongoing for the better part of 20 years. And that evolution has occurred because of economics over time as manufacturing has shifted South and West from Japan to Korea to China and now towards Vietnam and Myanmar, et cetera, it makes those all water sailings more attractive. When you look at the population center of the U.S., which is East of Mississippi.

The expansion of the Panama Canal and now the use of Suez is also a compelling reason why those economics tend to work more. Our position is pretty simple. We want to be able to handle those shipments effectively, whether they come in through the West Coast, [which I think quite a few still will] or whether it comes through the East Coast. There's no doubt that there is a lot of inland infrastructure associated with transloading on the West Coast that makes that compelling. And we're perfectly positioned to help our customers deliver that volume to the population centers in the east.

At the same time, we've invested a lot of money to make sure that we're a compelling partner for our ports and for our steamship lines as they come through the East Coast. We've invested a lot of money in some of our largest lanes, are those shorter lengths haul that emanate from whether it's Savannah, Charleston, or Norfolk or from New York, et cetera, that allow us to add value to those shipments.

Jeffrey Asher Kauffman
Vertical Research Partners, LLC

And just to follow up to that, what are your customers telling you in terms of their plans on inventory reduction where you may see more normalized shipment levels?

Claude E. Elkins
Executive VP & Chief Marketing Officer

I think the outlook from our customers is that there's been a work down in inventory recently after that run-up. I think many of their customers are now getting their inventories in much better shape. And it really comes down to having the right product, not necessarily the right number of any given product, but the right type. And so we're encouraged by those recent work downs. And as we move into '23, again, we're guarded in terms of economic outlook, but poised for opportunity as soon as they manifest themselves.

Operator

Our next question comes from the line of David Vernon with Bernstein.

David Scott Vernon

Sanford C. Bernstein & Co., LLC., Research Division

So one sort of detailed question and then I had a question for you, Ed, on sort of rail share. So just to start off, if you think about the starting off point for flattish EBIT guidance, can you just give -- let us help us understand is that from a GAAP basis or adjusting for some of the accruals? And then as you think about the last couple of quarters, have noticed the carload traffic, particularly chemicals and ag, you guys have been outperforming CSX. And I'd love to get your perspective on how important sort of rail share is to you and the growth strategy going forward. CSX has historically had a little bit bigger carload footprint I think than you guys have had as you've been investing a lot in intermodal over the last decade.

How do you think about that share situation playing out, right? Are you guys outgrowing them because of some specific network advantages? Are you winning them in the marketplace? Any thoughts on that would be really helpful.

Mark R. George

Executive VP of Finance & CFO

Yes, real quick, David. I mean we're talking on a GAAP basis and -- go ahead, Ed.

Claude E. Elkins

Executive VP & Chief Marketing Officer

Sure. Yes. The market that we really study is that \$860 billion truck and logistics market. There's 5 trillion-ton miles moving in North America. And majority of those move adverse to railroads. We -- that's where I'm focused is, how do we convert that business -- more of that business to Norfolk Southern. Railroads are, in some ways, defined by geography, but we are defined by our customer base, and that's what we're focused on.

Operator

Ladies and gentlemen, our last question today comes from the line of Ken Hoexter with Bank of America.

Kenneth Scott Hoexter

BofA Securities, Research Division

Great. So just a follow -- a couple of clarifications. On staffing, are you saying you're only 100 off your T&E target, and that's your goal there? And then I guess the total employees, you ended with about 19,250, up about 1,200 from a year ago. Maybe give your thoughts on where that is a year from now? And then maybe -- I don't know, Mark, can you talk about what service level costs are still embedded in there, given the service gains versus inflation? I'm just trying to figure out where the opportunity is?

Alan H. Shaw

President, CEO & Director

Ken, for now, based on the economic outlook of 7,600 target that we had -- still exists, we're going to continue to hire in locations where we're tight. And going forward, as you look here into 2024, obviously, there's a lot of uncertainty out there. We've talked about that. And so I don't want to get too far ahead of ourselves. I will tell you that right now, the conductor training pipeline is elevated, but it will remain so until we get to target and feel like we're recruiting, hiring and training at a steady state.

Mark R. George

Executive VP of Finance & CFO

And certainly, volume growth profile will mean that, that number is constantly moving. The target head count number is constantly moving. And specific to your question on where the service costs reside, Ken, I'd say roughly half of those sit in comp and ben between overtime, reworks, incentive expenses, as well as recruiting and training. That's really where, I'd say, half of it said. There's

also a fair amount in purchased services. A lot of the disruption cost sits there. And there's also a little bit sitting in materials as well with regard to locomotives. So it's battered throughout the rest of the P&L, but half of it sits in comp and ben.

Kenneth Scott Hoexter
BofA Securities, Research Division

And is there a total dollar amount that you're pointing to that you're looking to offset with the inflation?

Mark R. George
Executive VP of Finance & CFO

Well, what we indicated was it's roughly \$40 million a quarter that we're dealing with. And I would expect that, that number to come back down closer to, but not all the way to 0, by the time you get to the end of the year. So that's it.

Kenneth Scott Hoexter
BofA Securities, Research Division

Great. And then just a follow-up for me, if I can. Paul, you noted 202 locomotive miles per day. Can you talk about targets there, given the service improvements where you think we end the year with?

Paul B. Duncan
Executive VP & COO

We are just now beginning to get the service back to where we wanted it to be here for the past -- within the past several weeks and if not the past couple of months. So we described at Investor Day the flywheel effect that is going to take place, fully expect as we continue to resource up to the group piece that we spoke to and the service gains we have made that we're going to continue to see that improve throughout the year.

Operator

Ladies and gentlemen, that concludes our question-and-answer session. I'll turn the floor back to Mr. Alan Shaw for any final comments.

Alan H. Shaw
President, CEO & Director

I'd like to thank everyone for their interest in Norfolk Southern and for joining us today. Thanks.

Operator
Thank you. This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.

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