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Presentation

Operator

Greetings, and welcome to the Norfolk Southern Corporation Third Quarter 2022 Earnings Call. [Operator Instructions]. As a reminder, this conference is being recorded.

It's now my pleasure to introduce Luke Nichols, Senior Director of Investor Relations. Thank you, Mr. Nichols. You may now begin.

Luke Nichols

Thank you, and good morning, everyone.

Please note that during today's call, we will make certain forward-looking statements 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. A full transcript and download will be posted after the call.

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 Third Quarter 2022 Earnings Call. I'm joined today by Cindy Sanborn, Chief Operating Officer; Ed Elkins, Chief Marketing Officer; and Mark George, Chief Financial Officer.

The Norfolk Southern team delivered strong financial results in the third quarter, achieving quarterly records for revenue, net income and earnings per share. We also demonstrated our focus on productivity and efficiency with significant OR improvement, as Mark will describe in a moment. Thank you to all the men and women of Norfolk Southern for their remarkable work this quarter and throughout the year, proudly serving our customers and improving the quality of our product.

We are qualifying conductors at a robust pace, executing and refining our TOP|SPG operating plan and further strengthening our leadership team and operations. The impact is evident across our network. We see improved operating metrics, such as higher train speeds and shorter dwells. We see improved customer-facing service metrics. We hear improve feedback from customers who are talking to us about adding business. Volume is the lagging indicator, and we are confident our broad and continuing service improvement will drive growth opportunities in the months ahead. Today, the NS team is providing better service, creating network capacity for growth and demonstrating the customer-centric operations-driven approach. That is the foundation of our success.

During the quarter, we reached tentative agreements with the unions that represent our craft colleagues. This was a critical first step. The tentative agreements recognize the significant contributions of our people and keep them among the highest paid craft workers in any industry. In my continuing field visits with frontline railroaders and local supervisors, I've been able to express my appreciation for the vital work they do for Norfolk Southern, our customers and the U.S. economy. Working on the railroad has always been a great opportunity to build a fulfilling career, and we want to keep it that way.

In the final days of the cooling off period is the possibility of service disruption [loan]. We took a transparent no-surprises approach to communicating with our customers, which help them make informed decisions about how to keep their goods and materials moving. This is an excellent illustration of what it means to be customer-centric. Even though it created a modest headwind on volume, as Ed will describe, we received positive feedback from many of our customers. We'll take that same no surprises approach every time, because it's how we will deepen customer trust and enhance long-term value creation and growth.

Now, I'll turn the discussion to Cindy for additional detail on our strong operating progress during the quarter. Cindy?

Cynthia M. Sanborn
Executive VP & COO

Good morning. Turning to Slide 5, our resolve to improve service levels is paying off. During the quarter, we executed a smooth rollout of the latest evolution of our PSR-based operating plan, TOP|SPG, and ended the quarter with network velocity more than 20% improved from where it was entering the quarter. As a result, the service recovery glide path we charted earlier this year for the

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STB is trending well ahead of schedule. We have more improvements to make with progress being fueled by staffing initiatives, TOP|SPG and disciplined field execution. We are gaining momentum and will continue to drive to enhance our customer service and create capacity.

Slide 6 highlights where we are with staffing levels of our transportation workforce. Our pipeline of trainees remains robust, and we have reached the waypoint target of approximately 7,300 qualified T&E staff a month ahead of schedule. This was accomplished through our innovative approach to recruiting and reinforces the advantage we have to recruit a high-quality craft workforce that takes pride in moving the economy forward. As you heard from Alan, we are pleased to have reached tentative agreements in the quarter to keep that workforce among the highest paid in the nation.

Slide 7 continues the discussion on service improvements we are making. Last quarter, we shared with you the decision to adjust a couple of our existing major terminals from flat switching to humping. Those shifts went smoothly and are paying dividends today.

We are leveraging a similar number of crew starts as we had entering this year inside our yards and terminals and are now moving cars more fluidly through those facilities. As a result, the railcar fleet is moving faster through our terminals. We're operating at high levels of productivity and creating capacity within our switching resources to drive further growth and productivity. As I said last quarter, we will remain flexible to most optimally manage assets, control costs, serve our customers and do so safely.

Moving to Slide 8. GTMs were flat year-over-year, coupled with crew starts that were up 1%, produced flat train length and weight. We are very focused on the implementation of TOP|SPG in the quarter and are now poised for growth on our train network.

Active Locomotives were up for the fourth consecutive quarter in support of service recovery. And I am pleased to say that as we regain fluidity over the last couple of months, Active Locomotives are trending down on both a sequential and year-over-year basis. The skill of our mechanical workforce, coupled with our DC to AC modernization strategy, allowed us to deploy search fleet capacities to support service recovery at historic levels of reliability. As I've discussed, we're continuing the modernization program in support of reliability and capacity in the future.

Lastly, this marked our fourth consecutive quarter of fuel efficiency gains, again, due in part to our fleet investments along with shutdown compliance initiatives, augmented with enhanced communications technology and many more efforts.

Slide 9 hits on a pillar of our digital strategy, Empower the Workforce, which crosses our entire operations group. Through Empower the Workforce, we provide mobile, self-service capabilities to our field forces and enable them to better manage their work with modern mobile applications. They are no longer tied to fixed base reporting and can input and retrieve information when they need it in modern, user-friendly mobile applications. We have a mobility group of technology specialists that are responsible for providing consistent, consumer-grade mobile applications to our transportation, engineering and mechanical forces. Whether it's an application for reporting railcar pickups and set-offs, obtaining track authority or recording bridge inspections, we are providing information where and when our employees need it in order to better manage their workday.

To wrap up, Slide 10 is a snapshot of our progress on operating safely. We've been aggressively hiring and have a strong focus on equipping our workforce with the training and tools to perform safely and efficiently. I want to thank our entire workforce for their focus on the job at hand throughout the very dynamic third quarter. I am pleased with our progress, but we'll never be satisfied until we reach zero accidents and injuries.

Thank you, and I will now turn the call over to Ed.

Claude E. Elkins
Executive VP & Chief Marketing Officer

Thank you, Cindy, and good morning, everyone.

All right. Turning to Slide 12, let's review our results for the third quarter where we achieved record quarterly results in several categories. Total revenue improved 17% year-over-year to $3.3 billion as fuel surcharge and favorable price conditions more than offset a 2% decline in volume. Most notably, revenue per unit, excluding fuel, increased significantly and established a new record in both our merchandise sector and for Norfolk Southern overall. These results reflect a strong price environment and the deliberate efforts of our commercial teams to pursue these opportunities.

Before I comment on our individual business groups, I would like to address the impact of our collaborative mitigation efforts in response to a potential labor disruption this quarter. Coming out of August, we were encouraged by the upward trajectory of our volumes. As we move through September and concerns of a labor disruption grew stronger, we acted to guard against the potentially negative impacts on our customers and the communities that we serve in keeping with our no-surprises approach to customer

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engagement. We spoke with our customers early on about our plans to limit the risk of stranded, hazardous materials and security-sensitive freight like Intermodal by restricting service for these products.

We estimate that this approach accounted for roughly 40% to 50% of the volume decline in the quarter or $20 million to $25 million in lost revenue, mostly in our Intermodal markets. Our goal as a customer-centric organization is to gain credibility as a transparent and trusted service provider so that our customers integrate NS further into their supply chain needs. We can only achieve that goal with proactive communication and planning that minimizes disruption. Our customers told us that they appreciated our industry-leading communication, and we're confident that our approach will deliver long-term value for Norfolk Southern, for our shareholders and for our customers. We are pleased that a labor disruption was avoided, and we remain committed to providing quality service that our customers can rely on for their supply chain needs.

Now continuing to our business group's performance in the third quarter. Merchandise volume was down 2% year-over-year, driven by declines in our steel and ethanol markets that were partially offset by higher demand for sand and aggregates. With respect to steel, service challenges related to equipment availability negatively impacted our ability to meet demand. Ethanol shipments were also down as consumption of gasoline declined in the third quarter on a year-over-year basis.

On the positive side, shipments of sand increased more than 43% year-over-year on higher demand related to the strong market for natural gas production. Aggregates were also up due to higher levels of construction activity. Merchandise revenue improved 13% year-over-year to a quarterly record of $1.9 billion on higher revenue from fuel surcharges and from price gains.

Moving on to Intermodal, revenue improved 16% for the quarter despite a 5% decline in volume. Revenue per unit reached a record level this quarter, driven by higher revenue from fuel surcharge and price. Intermodal shipments continue to be pressured by supply chain congestion and equipment shortages. This temporary shift was felt most strongly in our domestic business, where volume was down 4% year-over-year. International Intermodal volume declines were driven primarily by car supply and private chassis shortages, both reducing customer demand for inland point Intermodal and limiting our ability to satisfy that demand.

Lastly, coal market conditions were again favorable for us this quarter, enabling us to deliver 43% growth in revenue for the franchise from volume growth, price improvement and fuel surcharge revenue. Volume growth was led by shipments of utility coal that were up on higher demand spurred by high natural gas prices. Export coal volume was also up due to some carryover from the second quarter and generally improved coal supply. Coal volume growth was partially offset by year-over-year declines in coke shipments due to facility closures.

Overall, our performance for the quarter reflects continued progress on our strategic plan to drive value for our customers and shareholders while simultaneously working to address pressures related to volume.

Moving to our outlook for the remainder of the year on Slide 13. Our service is trending in the right direction, and we expect that to be a tailwind to volumes in the fourth quarter. Additionally, we're optimistic that consumer spending and manufacturing activity will support volumes for the remainder of the year. Those expectations are somewhat muted in light of looming recession risks and tightening financial conditions that are pressuring economic activity, especially in interest rate-sensitive markets like housing.

Volume in our merchandise segment will benefit from growing activity in automotive markets, with U.S. light vehicle production currently expected to increase in the fourth quarter of '22 compared to 2021. Also contributing to growth will be new opportunities to move corn and other grains. Much of the Southeast corn crop is down significantly versus last year. This is likely to increase demand for Midwest-originated corn by rail. Since emerging from the pandemic low, manufacturing activity has been increasing at a steady rate. But we're beginning to see that growth level off with forecasts calling for growth to moderate to 3% year-over-year in the fourth quarter.

As the Fed tightens interest rates, mortgage rates have increased to levels that are cooling the housing market. This reduced demand affects several of our merchandise as well as Intermodal markets. Overall, we expect merchandise volumes to be relatively flat in the fourth quarter with some upside potential as service continues to recover.

Within Intermodal, our expectation is for volume to be down slightly year-over-year with opportunities from easing terminal congestion and equipment supply being offset by expectations for weaker demand and a softening truck market.

On the domestic side, national Intermodal volume trends are showing signs of slowing, suggesting weaker peak season demand. However, consumer spending, which has historically been a big driver of this market, is currently forecasted to hold steady through the end of the year, providing underlying support for our domestic Intermodal volumes. We continue to see volume opportunity for domestic Intermodal as our service recovers, and we expect customers to shift loads from the highway to rail as we intently focus on improving domestic Intermodal service.

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International Intermodal will continue to struggle with congestion and equipment supply, and we expect Intermodal storage charges to remain elevated so long as those issues continue. When supply chain congestion does ease, we expect to deliver additional international volume for customers as Inland Point Intermodal, or IPI, becomes more attractive.

And finally, our expectations for coal are that volumes will continue to improve year-over-year in the fourth quarter driven by strength in the markets for both utility and export coal. EIA's latest forecast is for natural gas prices to remain elevated through the end of the year. This will increase demand for coal as a competitive alternative. Seaborne coal prices are expected to remain at relatively high levels through the end of the year, indicating continued demand for U.S. coals abroad. We also anticipate increased coal supply in the fourth quarter, primarily for export, which will create opportunities for coal volume growth.

To summarize, we have a number of uncertain market signals in front of us right now, but our focus remains on impacting the things that we can control to deliver quality service to our customers and increase value for our shareholders. Overall, we have a fantastic portfolio of customers. And as always, I want to take this opportunity to thank them for their business and for their ongoing partnership.

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.

Starting on Slide 15, Ed walked you through the drivers of our 17% growth in revenues. You'll see operating expense of $355 million or 21%, and that includes a $117 million true-up to our compensation accruals based on the terms of the tentative labor agreements. This resulted in the operating ratio increasing year-over-year to 62% for the quarter. Operating income grew $136 million or 12% despite that headwind. EPS was up 34% or $1.04, thanks to strong earnings growth coupled with share shrink, but also from an adjustment to income tax expense related to Pennsylvania's rate reduction that was enacted in the quarter. You will recall we did signal this in our second quarter earnings release.

Let's take a moment on Slide 16 to drill specifically into the labor cost adjustments that we reported. As I mentioned, we increased our wage accruals by $117 million in Q3, with $88 million of that amount related to past periods and $29 million related specifically to Q3 2022. The columns represent the period in which the adjustments relate. These amounts, including the impact of the bonus payments, represents more than 2x what we had been assuming. We anticipate another $23 million of incremental expense in Q4, bringing the total amount for the year to $140 million, which represents as much as 110 basis points of headwind to the full year OR from what we had been expecting. It is also worth noting that there is an additional $50 million of incremental label cost that will be capitalized into property additions this year.

Now let's take a moment on Slide 17 to reconcile the drivers of OR and EPS since there are some movers in the quarter. The impact of the $88 million out-of-period wage accruals in Q3 was meaningful, representing a 270 basis point headwind to the OR and $0.28 on EPS. We did have a favorable legal settlement in the quarter that provided a $0.05 of help to EPS and 40 basis points of help on the OR. The favorable state tax rate change caused a $136 million reduction to our deferred tax liability, which equates to $0.58 of EPS lift. That leaves a core improvement in EPS of $0.69 and improvement in the operating ratio of 50 basis points, which, I'll point out, includes the absorption of 90 basis points of headwind from the $29 million in-period incremental labor cost adjustments that I spoke to on the prior slide.

Moving now to Slide 18 and the changes in operating expenses of $355 million, which represents a 21% increase year-over-year. Fuel was the primary driver, up $175 million or 84% due almost entirely to price. But as Cindy noted, we did enjoy benefits associated with a 3% fuel efficiency improvement. Compensation and benefits, it is up 21% due to the elevated labor costs associated with the tentative agreements.

Moving on, you'll see purchase services and rents collectively up $52 million. Inflation and slower network speed continue to drive up these 2 cost categories. Materials, claims and other expenses were down 4% or $7 million year-over-year, helped in part from the $15 million favorable legal settlement in the other category.

Turning now to Slide 19 for the P&L below operating income. Other income was an expense of $2 million in the quarter, $16 million unfavorable compared to last year driven by losses on the company-owned life insurance investments due to negative equity and fixed income market returns in the quarter. While pretax income was up 11% in the quarter, net income was up 27% due to the 12.4% effective tax rate in the quarter, thanks to the benefit recorded from the state tax rate change. EPS was up 34%, greater than net income growth supported by our capital allocation strategy that includes share repurchases.

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Shifting to Slide 20. Cash from operations through 9 months is up $111 million while property additions were higher by $257 million. As we discussed last quarter, I expect capital expenditures to be at the high end of the $1.8 billion to $1.9 billion guidance range, with materials inflation and now incremental wage inflation creating meaningful headwinds. Free cash flow conversion stands at 86%. Shareholder distributions have been strong this year with a 15% increase to our dividends plus continuing solid share repurchase activity.

And with that, I'll hand back over to Alan.

Alan H. Shaw
President, CEO & Director

Thank you, Mark. Noting the considerable changes that occurred in the third quarter, I'd like to update you on our outlook for the balance of 2022.

As you'll see on Slide 21, based on the strong Q3 revenue performance, we now see full year revenue growth of 13% plus year-over-year. Ongoing strength in RPU driven by fuel surcharges and strong price gains are helping us overcome lagging volumes which, as Ed laid out, we expect to be flattish overall in Q4.

Turning to the operating ratio. We are tracking to our previous guidance, excluding the impact from the tentative labor agreements. Mark laid out $140 million of incremental impact for the year, which is roughly 110 basis points of OR headwind. As such, we now expect the all-in OR for the full year to be roughly 62% based on our current assessment of the market.

Since I became CEO in May, you have heard me speak to the strengths of our team and culture, our powerful network and the macroeconomic trends supporting highway-to-rail conversion. I have shared some thoughts on our customer-centric operations-driven approach and spoken to the bright future ahead for Norfolk Southern. I continue to be encouraged by my engagements with all of our team members and their commitment to serving our customers. As we approach our December 6 Investor Day, we are eager to share a more detailed view of our long-term strategy for value creation.
We will now open the call to questions. Operator?

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Question and Answer

Operator

[Operator Instructions] And our first question today will be coming from the line of Justin Long with Stephens.

Justin Trennon Long
Stephens Inc., Research Division

Just to start on the 2022 guidance. If I look at what you're guiding for revenue and your commentary on volumes, it implies that yields will be down at a decent amount sequentially in the fourth quarter. So I was wondering if you could provide more color on that, specifically around coal RPU.

And then maybe secondly, there have been a lot of inefficiencies in the network this year. Is there a way you can put a number on what that cost has been in 2022 as we think about service recovering and that potential future tailwind?

Alan H. Shaw
President, CEO & Director

Yes, certainly, we see some potential headwinds in some of our markets moving into the fourth quarter, specifically energy, as you called out. And I'll let Ed talk about the projected impact on the top line.

Claude E. Elkins
Executive VP & Chief Marketing Officer

Sure. We've seen how seaborne coal prices have fallen, but they have done a new floor and they remain at relatively high levels. On the utility side, we expect there's still a lot of demand out there for that. You factor in what's going on in Europe, and we feel pretty good on the utility side on the steam coal side.

The met coal side is a different story. There's a lot of cross currents and headwinds, particularly from China that we see. Steel production in China remains muted, and the housing situation there, which consumes a tremendous amount of steel in that market, remains off kilter, so to speak. So we are more guarded about the met coal side of the business. Does that answer your question?

Alan H. Shaw
President, CEO & Director

Well, and also, Ed, talk about your outlook for fuel surcharge revenue.

Claude E. Elkins
Executive VP & Chief Marketing Officer

Yes. Fuel surcharge, when we look at the forward curves and we know we have a 2-month lag, we are expecting that there is a headwind. That's when we come into play in the fourth quarter.

Justin Trennon Long
Stephens Inc., Research Division

Okay. So it sounds like it's more action of fuel and coal RPU versus any slowdown in core price.

Alan H. Shaw
President, CEO & Director

That's right.

Claude E. Elkins
Executive VP & Chief Marketing Officer

Yes, we -- you've heard us talk about this before. We price to the value of our service in the market, and we're very diligent about that. We are confident with our commercial teams that we're identifying places we're adding value. We had -- we'll see RPU less fuel records in merchandise and overall this quarter, and we've had almost 6 years of revenue improvement or RPU improvement in

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Intermodal and almost 7 years on our merchandise side. That's through a lot of up and down cycles, freight recessions and freight boom times, and we've consistently been able to deliver. So we're very focused on that side of the business.

Alan H. Shaw
President, CEO & Director

And as we price to the value of our product, the value of our product is improving.

Claude E. Elkins
Executive VP & Chief Marketing Officer

Yes.

Justin Trennon Long
Stephens Inc., Research Division

Got it. And maybe, Mark, on the network inefficiency cost question?

Mark R. George
Executive VP of Finance & CFO

Yes. Clearly, we're suffering incremental service costs related to where we are in our service product today. Honestly, it's at least $40 million a quarter, and those things are -- they show up in comp and ben, it shows up in purchase services. And as things improve going into 2023, we'll start to see relief in the P&L there.

Operator

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

Jordan Robert Alliger
Goldman Sachs Group, Inc., Research Division

So you've talked about volumes and hopefully seeing some improvement there, but I'm just sort of curious when do we see these service metrics more fully translate to volume capability based on demand? And why has there been such a lag?

Alan H. Shaw
President, CEO & Director

Jordan, as we noted, volume is a lag to service. We had seen a lot of improvement in our volume sequentially heading up to the potential work stoppage in mid-September. We're starting to see some improvements now. Ed?

Claude E. Elkins
Executive VP & Chief Marketing Officer

Yes. And I'll repeat what I said earlier, we felt like we had a lot of momentum going into that strike or the potential for a strike. And we've talked previously about the IPI issue at our railroad, and that continues to impact volumes in the third quarter as our international customer portfolio made decisions to do more port-to-port services, specifically on short-haul lanes that are typically sensitive to spot truck prices.

If you look, our revenue per tonne models in Intermodal declined 1% on a 5% volume decline, and that really confirms to us that the headwinds are highest in these very short haul lanes. We see some factors that have driven these IPI decisions like ocean freight rates. They're really reverting to a more normal course. We have a very broad base of international customers. And when you look back pre-pandemic, the IPI business, the Inland Port International, played a significant role in our customer supply chain. And as inland congestion eases, those supply chains are going to return to normal, and we think our customers -- well, we know our customers are telling us that they expect to increase their use of IPI as that happens.

We talk to our customers every day, and we are very encouraged by the feedback we're getting. We have customers coming to us that are recognizing the change in our service product for the better and are looking to put additional volume on the railroad. As one example, I would cite the ag markets where we've been able to really participate in some of the spot markets that previously we weren't able to because we have new capacity because of the improvements in our service product. That's just an example.

Operator

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

Christian F. Wetherbee
Citigroup Inc., Research Division

I guess we are seeing some warning signals in terms of economic factors, and I guess I just wanted to make sure I understood sort of how you guys are going to manage the network as you sort of potentially deal with those maybe in the first half of next year, maybe over the course of next year. You've got the service improvement underway. It looks like hiring is kind of where you need it to be. I guess how flexible can the network be through potential volume volatility as we kind of progress over the course of the next several quarters?

Alan H. Shaw
President, CEO & Director

Chris, we are intently focused on continuing our service recovery. It is the value of our product. And as Ed noted, we price to the value of the product. And as our product value improves, we continue to see more volume and revenue opportunities for us.

We're encouraged by the number of conductor trainees in our pipeline. Right now, it's about 950, which is, I think, pretty close to our high in 2022. And we are continuing to hire for some specific locations. As we've talked about, we have about 95 different true hiring locations. We're going to reassess our legacy assumptions on staffing, and we're not going to make any unilateral commitments on what we're going to do going forward. I will commit that we will be data-driven in our approach, and we're going to make decisions based on the long-term value creation, balancing service, cost control and growth.

Cindy, you're thinking about some specific opportunities to add more flexibility.

Cynthia M. Sanborn
Executive VP & COO

Yes. So in the short term, we obviously -- we do have some training opportunities to replenish our locomotive engineer ranks that we set back to conductors and allow us to step them up when we need to because it takes longer to train an engineer than it does a conductor. We'll also be enhancing our Go Team membership, the folks we're going to have in our Go Team group. It won't be a huge number of people, but that will also be a resiliency tactic that we'll take.

And in the effort to improve our conductor availability through the downturns that we've had -- or through the challenges that we've had, we've [territorily] qualified in a single segment because that's where they would stand to work. And now we need to qualify them on other segments, radiating out of that same supply point.

So there's a number of actions that we'll take here to make sure we're fortified and ready to go into any upturn. Going through a downturn, we'll manage through these opportunities. And then as we come into an upturn, they'll be available to us.

Christian F. Wetherbee
Citigroup Inc., Research Division

Okay. That's helpful. And I guess, I think there's been some concern for the industry broadly that if we were to see maybe a more sudden drop-off in volume that the industry would be less sort of able to react as quickly as possible, sort of resulting potentially in worse decremental margins than we've seen in previous downturns. I think that sort of has something to do with furloughing employees, maybe a bit more aggressively in previous times. Any thoughts on whether you think that is a valid concern as we go into next year? Or are there enough levers that you have to pull to be able to offset that?

Cynthia M. Sanborn
Executive VP & COO

Well, I think we -- as you noted, I mean, the labor market is different than in the past, and our recruiting efforts are a little bit different than in the past. We know how long it takes to train and hire an employee, and we talk about having 95 different hiring groups that we have to manage that through. So I will say that we have to make sure we manage through downturns in such a way that we're in a good place to handle the upturns. That's how we're going to manage -- that's how we're going to grow long term. So we have levers such as attrition that can help us if we need it, but we also know that we have to be fortified in having a good hiring pipeline or a line of sight to that hiring pipeline so that we can manage the upturn. We don't just want to manage one side.

Operator

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

Scott H. Group
Wolfe Research, LLC

Mark, you talked about at least $40 million a quarter of sort of network inefficiencies. I'm wondering how much of storage revenue, though, are we seeing per quarter? And what's a more normal number? So as service gets better, that $40 million of cost goes away, but maybe how much of this storage revenue goes? I'm just trying to understand the puts and takes.

Mark R. George
Executive VP of Finance & CFO

Yes. Scott, clearly, there is some storage revenue that helps mitigate that, the accessorial revenues that we talked to. And certainly, as service recovers, we'll start to see those accessorial revenues come down.

Ed, I don't know if you want to talk about the pacing in which you see that...

Claude E. Elkins
Executive VP & Chief Marketing Officer

Yes. No, earlier this year, we thought that the supply chains would unlock faster, and we would start to see that storage number come off as customers got more fluid into warehousing on the street. Frankly, that hadn't happened. If you look at many of our hinterland markets, particularly deeper into the Midwest, we continue to see the same issues that we saw earlier. So the storage number continues to remain elevated, and we expect right now that it's going to continue to be elevated in the fourth quarter. I think next year, we're hopeful that supply chains will unlock, and there'll be more opportunities move volume instead of storage.

Alan H. Shaw
President, CEO & Director

And it's also true that while storage revenue is elevated, the year-over-year comps are slowing down.

Claude E. Elkins
Executive VP & Chief Marketing Officer

Absolutely. We've lapped it, yes.

Scott H. Group
Wolfe Research, LLC

So when you think about the puts and takes for next year, I think it -- probably another good year of pricing, service improvement, some uncertainty with volume wage inflation. Do you think the pieces are there to start getting margins higher again next year?

Mark R. George
Executive VP of Finance & CFO

Well, we're actually putting together the budget for '23 now, and there's a lot of big assumptions that have to be made. So we'll be back to you with '23 guidance. Certainly, that's our goal at this point in time. We've got to get inflation under control. We've got to try to get some offsets on the top line from that. How much volume we can get is going to be a big lever as well. So we'll come back to you with the '23 numbers.

Operator

Our next question is from the line of Jason Seidl with Cowen.

Jason H. Seidl
Cowen and Company, LLC, Research Division

I wanted to look a little bit about Intermodal's growth rate and sort of how much do you think it's been impacted by, A, your service levels and, B, some of the labor issues that we saw last quarter. So in other words, what's a good economic base to look at '23 off of '22?

Alan H. Shaw
President, CEO & Director

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Intermodal is clearly a growth driver for us going forward. Ed, why don't you talk about how we're going to continue to leverage that unique franchise strength?

Claude E. Elkins
Executive VP & Chief Marketing Officer

Yes. We think we have the most powerful franchise in North America when it comes to Intermodal. We're located square in the heart of the U.S. consumer markets as well as manufacturing with access -- great access to all the East Coast ports and all the Western railroads.

We talk to our customers every day. They are investing for growth. Our channel partners are priming themselves to grow with Norfolk Southern as our service improves. And as our service improves, we're creating additional opportunities for them to satisfy supply chain issues that are still manifesting themselves out there. We know that there's a lot of cross current and a lot of, what I would call, mixed signals out there in the macroeconomic environment. We're encouraged by what's going on in manufacturing, which had a great report in September. Future orders appear to be somewhat of a drag.

It's undeniable that with interest rates going up and inflation staying stubbornly high, there is some demand destruction out there. But we're confident that for our customers and for our channel partners, Intermodal is still going to be a great way for them to save money going forward in a very inflationary environment as they take freight off the highway and put it on the railroad.

Alan H. Shaw
President, CEO & Director

Jason, we're looking forward to sharing more of our long-term vision for value creation at our Investor Day in 6 weeks. And clearly, Intermodal is a key component of that.

Jason H. Seidl
Cowen and Company, LLC, Research Division

I look forward to hearing that down there. I was just trying to get sort of -- if you guys can even put a ballpark figure on sort of how many growth points, service, labor issues and lack of equipment might have cost you this year on a 3-quarter basis so far?

Alan H. Shaw
President, CEO & Director

Well, I think you nailed them all. And then I think you should also add in this IPI issue where the short-haul business from the ports is being trucked. Despite that and despite the fact that our Intermodal volumes were down by 1% in the quarter, as Ed noted, our revenue ton miles in Intermodal were up 5%.

Jason H. Seidl
Cowen and Company, LLC, Research Division

Got you. So you think that if we didn't have all these issues, you guys have positive volumes at least this year.

Alan H. Shaw
President, CEO & Director

There's absolutely no doubt.

Jason H. Seidl
Cowen and Company, LLC, Research Division

Okay. Really quick, if I can get one more in. The [indiscernible] tax benefit in the quarter, is there going to be an ongoing benefit that will impact your future tax rate?

Mark R. George
Executive VP of Finance & CFO

Pretty modest at the total level in any given quarter. It's kind of within that range that we guide. I don't think it's going to adjust the range, the effective tax rate that we guide.

Operator

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Our next question is from the line of Tom Wadewitz with UBS.

Thomas Richard Wadewitz
UBS Investment Bank, Research Division

Yes. So I'll give you the 2 questions upfront. So the first one would just be on pricing. Mark, you talked about the big assumptions in the budget for 2023 that you need top line to offset some of the inflation. I wonder maybe for Ed, if you can just give some commentary on how sensitive you think prices in your book to a weaker truckload market and falling truckload contract rates. Can you accelerate pricing against that backdrop? Or is weaker truck something we should really be mindful of?

And then the second one is just on volume. I think we've had this assessment that improving service that you're delivering more capacity would translate to stronger volume. It sounds like that's maybe not the case just because the markets are getting a bit weaker. So I don't know if that's right or if you still think there are segments that are going to see stronger volumes as you continue to improve the service.

Claude E. Elkins
Executive VP & Chief Marketing Officer

Sure. On the revenue side, on the price side, like I said, we've been talking to our customers every single day about where price is going. We've got a great track record of being able to deliver price as we increase the value that we're delivering to our customers, and they can transfer that on. Our service is improving in -- and I will tell you that our customers are confident that as our service improves, they can put additional volume against the railroad.

And look, that helps save money for our customers in the long term. We price to the value of the market. We know that there's a lot of noise around the spot market, which goes up and goes down. We stay focused on the long-term trajectory of contract rates, and our customers understand that.

On the -- can you repeat your volume question again?

Thomas Richard Wadewitz
UBS Investment Bank, Research Division

What -- okay. I guess just to finish that thought, but do you think we ought to be careful about the truck market getting weaker or you say, no, that's not a big impact on our pricing in '23?

Alan H. Shaw
President, CEO & Director

Our RTMs went up 5%.

Claude E. Elkins
Executive VP & Chief Marketing Officer

Yes. I think the macro economy is going to tell us where we're all going in terms of economic trajectory. We have been able to price and continue to be successful in pricing because of the value that we're delivering to those customers. I think a recession, if there is one coming, or a downturn, that's going to dictate how much volume we can put against the railroad and how much is available to put against the railroad. But we're confident that we're going to be able to do that.

On the volume side, I will tell you that we have a strong portfolio of customers that are, like I said, they're -- we stick to the script here, they're investing to grow. We see that happening, and I think as the IPI situation reverts to normal in terms of conditions that allow that, our customers are going to find value in that market as well.

Thomas Richard Wadewitz
UBS Investment Bank, Research Division

Okay, yes. And what about Industrial? Like if service improves, do you expect metals and forest products and chemicals volumes to improve in response to that?

Claude E. Elkins
Executive VP & Chief Marketing Officer

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Yes. And in fact, we're seeing, on the bulk side of our network, additional throughput capacity that we're putting up against customers right now in the spot markets. That's indicative of the opportunities that are out there. I think I noted in the third quarter, we had cycle times on equipment that still inhibited our ability to serve everyone that wanted to be served. And so as our fluid improves, we're going to be able to put additional capacity against them, too.

Our customers are telling us that there's additional volume out there that they want to put on the railroad. If you look at most of the manufacturing sectors, there's still a lot of unfilled orders out there that they're working through. Even in a -- what I would call a declining demand environment, there's still a lot of back orders. So we're confident about our ability to continue to grow volumes and service improvement.

Operator

[Operator Instructions] The next question will be coming from the line of Amit Mehrotra with Deutsche Bank.

Amit Singh Mehrotra
Deutsche Bank AG, Research Division

Mark, I just wanted to deconstruct the -- so the guidance of 62% OR, I think includes the $88 million prior period labor adjustments and then $15 million of legal settlements. So I'm just trying to figure out, it looks like it's really like 61.5% if you kind of strip out to maybe extraordinary, if you could just talk about that. And then the implied fourth quarter is something like, I think, like 63% OR or something like that to get to that 61.5%. I mean, you have to go back to like the fourth quarter of '19 to get something that low or high. And yield is up over 20% since then. Revenue is up over 10% since then. So I'm just trying to reconcile, first, if my numbers are correct. And then two, why would there be such a deterioration despite even some of the headwinds based on kind of the improvement you've seen in the business from a yield and service perspective.

Mark R. George
Executive VP of Finance & CFO

Thanks, Amit. So yes, the guidance that we gave of the 62% for the full year includes the retroactive wage adjustment as well as the ongoing wage adjustments. So basically, the $140 million, it is the all-in including the items that we called out this quarter. So it's -- that's kind of where it comes to. I'm not getting to your 63% number implied for Q4. So if you do the all-in, I think it's largely in line with -- in Q4, it should be largely in line with the full year number.

Amit Singh Mehrotra
Deutsche Bank AG, Research Division

Okay. Maybe I'll take that offline. But I'm just trying to think like if you strip out the $88 million, you're really looking at -- obviously, that's not an ongoing -- that's prior period. So maybe...

Mark R. George
Executive VP of Finance & CFO

Correct. Correct.

Amit Singh Mehrotra
Deutsche Bank AG, Research Division

So maybe 61.5% is kind of the right way to think about the jumping off point as you move into '23. Is that a fair way to think about it?

Mark R. George
Executive VP of Finance & CFO

Yes. We were -- when you ignore the $88 million and you look at our restated Q3, and then you can look at Q4 inclusive of the $23 million that we told you about, it's obviously -- it's a much lower number than the 62%.

Operator

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

Bascome Majors
Susquehanna Financial Group, LLLP, Research Division

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As we look out into next year with the visibility into the union labor wage increases, can you talk a little bit about either broader rail inflation or something in a cost per employee kind of context that we can think about modeling, just -- without getting all the way to preliminary guiding next year? Just what sort of cost inflation on the labor front or overall are you expecting versus history?

Mark R. George
Executive VP of Finance & CFO

Bascome, this is Mark. So the -- if you look at our comp per employee in the third quarter and you take out the retro wage adjustments, it's -- you'll get to about $34,250 for the quarter. And I would probably guide you all to think that same number would apply in Q4 because that is kind of the new number. It's baking in this 7% higher wage that took effect in July. So that would kind of go sideways there in Q4.

And then as you think about 2023, what we typically see in the first quarter is a resetting of the payroll taxes, and so that will knock it up a couple of points in conjunction with assumptions for higher bonus payout as well. So you'd probably see a point or 2 increase in that number going into the first half of next year. And then, of course, when you get to the back half of next year, you have another wage jump that comes from the contractual agreement numbers that you would have seen published. So that will probably go up another few points in the back half.

So that's probably the way I would look at it. It probably wants to go up more than a few points, but we will have some service cost relief as service improves and some of those costs that we are incurring related to overtime drayage -- not drayage, sorry, overtime and training costs, et cetera, start to subside. So I would model it out that way. A point or 2 elevation here from that level in the first half and then another, call it, a few points in the second half.

Operator

The next question is from the line of Ben Nolan with Stifel.

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

So as I'm looking at the 4Q sort of service improvements that look like they're having an effect with train speed and dwell and so forth and then matching that up with the increase in headcount that you have, just curious if you can frame in how much of the service improvements, you can say, put at the feet of being more fully staffed or appropriately staffed or whatever versus just sort of the -- well, any other factors that might be helping there.

Cynthia M. Sanborn
Executive VP & COO

Thanks for the question, Ben. I think hiring is a critical part of our service improvement efforts. We established a target that we shared with the STB of about, call it, 7,550 qualified T&Es by mid-2023. And we are ahead of that target as we head into November. And when we think of that number, just so we're really clear, and that top line number, we have to recognize there's 95 hiring locations underneath it. So while that number is important that we also have to have folks in the right critical locations.

I would say another lever that we pulled and we've talked about it in prior quarters is our TOP|SPG operating plan initiative that is in place. It's really helped us, I think, to have a more executable plan. And it's boiled down into a comprehensive review of connection standards, our distributed power playbook, and help us to recalibrate train meet. So as we get closer and closer on time, that fluidity continues to -- allow us to be more fluid, I guess, is the best way to put it. So I would say those 2 things are the biggest levers that we've had.

Alan H. Shaw
President, CEO & Director

Then recall that we implemented the first phase of TOP|SPG at the very end of the second quarter. And then in the third quarter, our train speeds increased by 20%. And as Cindy noted, it applies the principles of PSR, and it's really focused on balance, simplicity and executability.

Operator

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

Jonathan B. Chappell

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Evercore ISI Institutional Equities, Research Division

Cindy, sticking with some of the service questions and updates to issues from the recent past hasn't been much talk about chassis recently. Is that because the availability there has cleared up meaningfully? And how does that impact as you think about the excess equipment or the spare capacity on the network once you are appropriately resourced and the economic backdrop you're looking at for next year?

Alan H. Shaw
President, CEO & Director

Ed, some of the chassis issues in the past have been our own. Some have been our customers. Could you cover that, please?

Claude E. Elkins
Executive VP & Chief Marketing Officer

Sure. And we've been successful in getting a portion of our order online of our chassis, and we're seeing that help in terms of fluidity. I will tell you on the international side, there still remains a lot of shortages out there mostly because I believe those units are deployed on the street or at a warehouse. And it continues to be an issue on the international side of the business, particularly in these hinterland markets, as we talked about earlier. We deployed a number of countermeasures which includes some temporary storage facilities that we've been able to open to help accommodate our customers. But we will continue to look for additional fluidity going forward, particularly on the private chassis side.

Jonathan B. Chappell
Evercore ISI Institutional Equities, Research Division

So Ed, just to be clear. I mean is there any improvement or any line of sight towards improvement because it was in kind of major focus, let's call it, 9 months ago and maybe not so much anymore? But it sounds like it's still having a really big impact, especially on your international Intermodal.

Claude E. Elkins
Executive VP & Chief Marketing Officer

On the international Intermodal side, it is having an impact, and that's not a chassis or an asset that we control per se. For our chassis on our equipment, we've seen some relief both in terms of the fluidity side, but mostly because we've been able to add some chassis.

Operator

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

Brandon Robert Oglenski
Barclays Bank PLC, Research Division

Look, I don't mean to be near term or quarterly focused here, but can we come back to the implied 4Q sequential on the operating ratio? Because, Mark, if I back out the $88 million of prior year accruals and maybe even the legal settlement, it still looks like you're guiding OR up maybe 400 to 500 basis points sequentially, which I think would be one of the worst outcomes if we go back in time for your company. So what are we missing on the cost side? Or is this really a deceleration on the revenue front that we should be thinking?

Mark R. George
Executive VP of Finance & CFO

Yes. Look, I think the story here, it's mainly a top line story. We see the expenses largely in line with the third quarter when you exclude the labor adjustments that were historic -- I'm sorry, that were retroactively made as well as the favorable legal item that we called out. So really, what we're talking about is more of a top line story. So Ed talked a little bit about the RPU assumptions that we made on energy pricing. Hopefully, that's conservative and that comes back, but it's really less about cost and more about just a little bit of deceleration.

Alan H. Shaw
President, CEO & Director

Well, I want to clear up a point. There's nothing that we're looking at that suggests a 400 to 500 basis point decline or worsening of our OR in the fourth quarter. We don't see that math.

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Claude E. Elkins
Executive VP & Chief Marketing Officer

And our core pricing story remains absolutely intact.

Operator

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

Walter Noel Spracklin
RBC Capital Markets, Research Division

Just a quick housekeeping question on the tax rate. You mentioned that it's not changed. Are we in the 23.5%, 24% range. Is that right?

Mark R. George
Executive VP of Finance & CFO

Yes. That's -- for the time being, that's where the implied guidance is on the overall tax rate. That includes, obviously, the federal rate, which is at 21%, but it also includes a multitude of states, not just Pennsylvania where we operate. That brings it up a little bit higher. And yes, Pennsylvania's rate goes down a little bit, but we still got all the other state tax where we pay.

Walter Noel Spracklin
RBC Capital Markets, Research Division

Got it. Perfect. Okay. And then my second question here is on carryover impacts, whether it's headwinds or tailwinds that would impact OR going into 2023. And one of your peers mentioned they started out with a target for the beginning of the year. Obviously, you weren't able to achieve it due to the headwinds, but indicated that it's off the table for next year due to some of the carryovers. I don't know if Cindy is the best one to ask this, but is there -- is there headwinds to what you would have expected your OR to be, say, the beginning of the year that won't allow you to kind of achieve some of the benefits akin to what other industry peers are seeing? Or is that kind of specific to them? Do you believe that you can see a material improvement in your OR because those headwinds don't exist going into 2023?

Alan H. Shaw
President, CEO & Director

As I noted before, we're going to be more than happy to share our vision for long-term value creation at our Investor Day in about 6 weeks.

Operator

Our next question is coming from the line of Ken Hoexter with Bank of America.

Kenneth Scott Hoexter
BofA Securities, Research Division

So Alan, as you just highlight earlier, I thought that was a really important point on the furloughing and decrementals. I think that's probably one of the most talked about discussions on the future of the railroads, it's going to be what happens, can the rails be as variable as they had been. But I just want to visit on -- did I catch you right? Did you say that labor costs were 2x your target? It seems to be a very big step relative to the other rail gaps. And is there any reason for that?

And then I guess on the -- my follow-up on the TOP|SPG, what's the issue now? As you ramp employees, is it equipment chassis? Is it getting the humps back to speed? What else needs to be done going forward here to finish improving the service?

Mark R. George
Executive VP of Finance & CFO

Yes. Ken, I'll start on the labor costs. I mean, the PEB recommendations were obviously higher than we expected. We laid out very transparently for you the details of how those increases were allocated, including those retro adjustments, and we advised throughout all that we were accruing in line with historical increases and -- which is what we had on the table with labor prior to the PEB. So the adjustment is really just the math. Go ahead.

Alan H. Shaw

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President, CEO & Director

Let me talk about the service. We improved our train speed by 20% in the third quarter, and our service metrics are better than what we had projected to the Service Transportation Board earlier this year. Our service metrics and our service product is at a level, as Ed described, that's allowing us to participate in some lucrative spot opportunities that we didn't anticipate. We could participate in a couple of months ago. We made a lot of improvement. What we're allowed to do now because of the health of our network is narrow our focus a little bit more on some specific areas in which we need to continue to improve our service price. That's our focus. It's job priority #1 on Norfolk Southern.

Cynthia M. Sanborn
Executive VP & COO

And I would add on the SPG piece, Ken, that it's a consideration, refinement, simplification, all of those types of things. Again, it's a very PSR-oriented to making sure we get asset turns as we need to and be able to create fluidity that not only helps us from a cost perspective, but it's exactly what our customers need. So there's continuing work going on there as well.

Kenneth Scott Hoexter
BofA Securities, Research Division

Can I just ask a clarification? Mark, did you mention the headwind on the lost fuel surcharge for the fourth quarter was there? Or was it just we're going to have a headwind? I don't know if you'd put in on that.

Mark R. George
Executive VP of Finance & CFO

Actually, Ken, thanks for the opportunity to clear that up a little bit. That was another thing that's driving the fourth quarter operating ratio in the implied math, too, is fuel surcharge. The net fuel surcharge was actually a benefit here in the third quarter. And based on where fuel prices are going, it spins to become a headwind again just like it was in the first half.

Kenneth Scott Hoexter
BofA Securities, Research Division

I appreciate that. Did you put a level or a number, or just that's going to be...

Mark R. George
Executive VP of Finance & CFO

I did not. I did not. It's going to be -- well, we have to see where the prices are going. We've just seen a dramatic spike just in the past 1.5 weeks, which initially we weren't expecting to see, and we thought that maybe we would not have the headwinds that we're facing. But right now, it's -- fuel has moved up. And because of the lag effect, we'll end up having an OR headwind here in the fourth quarter. It won't catch up until the first quarter.

So again, in periods of a rising fuel, because of the lag, we end up with OR headwinds. When fuel stabilizes and starts to go down, you tend to get fuel tailwinds. So in Q3, we ended up having a reprieve on that and we got some OR help from the fuel surcharge program, but it looks like it's going to spin again to a headwind here in the fourth quarter. Just like we had in the first half.

Operator

Our next question is from the line of Ari Rosa with Credit Suisse.

Ariel Luis Rosa
Crédit Suisse AG, Research Division

So I wanted to start with just a philosophical question. Just maybe you could address how you're thinking about balancing desires for volume growth versus OR improvement. I know for a long time, I think the argument for NS has been, well, we grow -- we're going to outgrow the industry, and therefore, maybe our ORs will lag peers a little bit. Maybe you could just update us how you're thinking about the tension between those two?

And here we are in an environment where you're obviously adding resources in terms of headcount and other things, but you're looking for volume growth to be essentially flat in the fourth quarter. So maybe you could talk about that and the opportunity to maybe get volume over time to kind of meet those higher resource levels.

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Alan H. Shaw
President, CEO & Director

Yes. Ari, we firmly believe that service and margin improvement support each other. And frankly, you saw that in the third quarter. The service improved. Our margin improved versus the second quarter.

With respect to fourth quarter volumes, just note that normal seasonality would suggest generally about a 5% decline in volume in the fourth quarter relative to the third. So as our service continues to improve, we believe we're going to outperform normal seasonality on our volumes. And longer term, our commitment is to industry competitive margins with above market growth.

Ariel Luis Rosa
Crédit Suisse AG, Research Division

Okay. That's helpful. And then just really quickly, Alan, you mentioned that you're getting increased inquiries from customers based on kind of some of these service improvements. I was hoping you could just add some color around where those inquiries are coming in, what's the nature of those inquiries. Again, it's a little difficult to reconcile with the notion of volume growth maybe being a little bit flat or at least as implied by the guide. Just maybe give us some color around the nature of those conversations with customers.

Alan H. Shaw
President, CEO & Director

Ed, you're talking to our customers every day, as am I, but you're certainly much closer to this.

Claude E. Elkins
Executive VP & Chief Marketing Officer

Yes. Overall sentiment from our customers is that things have improved, and we're continuing to move in the right direction. We're hearing that every day from a range with customers.

One thing that we're certain about is as we increase train speed and reduce the amount of dwell, we're going to have more capacity to deliver value to our customers, and we're hearing that from them. I'll use the ag markets as an example on the bulk side where we are seeing customers come to us and come to us with spot opportunities that we probably wouldn't have been able to execute on in prior periods, but we're able to now. And so we're diligently looking at these opportunities, and it really means looking at opportunities where we can be successful and add value. There are several of those on the bulk side, and we'll continue to look for them.

Operator

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

Cherilyn Radbourne
TD Securities Equity Research

I was just looking for a bit of clarification on the $88 million retroactive labor accrual and the extent to which it reflects base wage increases versus the proposed bonuses. And to the extent that it's more weighted to bonuses versus the base wage increase, should we then assume that, that means the company was correctly anticipating base wage inflation and, therefore, should have been passing that on as contracts roll? Or how should we think about that accrual?

Mark R. George
Executive VP of Finance & CFO

Yes. We didn't provide the split of impact between the bonus and the base wage, Cherilyn, but we can -- let me look at providing that to you offline. But I do think that we are -- the overall impact that we've got from the $88 million that relates to 2020, 2021 and the first half of 2022 now becomes something that we have to absorb over time and mitigate with not just pricing, but with productivity and efficiency in the go forward. And that's our goal on how we offset that.

Operator

The next question is from the line of Jeff Kauffman with Vertical Research.

Jeffrey Asher Kauffman
Vertical Research Partners, LLC

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Congratulations. A lot of my questions have been answered, so let me just go with one modeling detail question. Debt was relatively flat. Interest expense, up $7 million. Obviously, interest rates arising. Can you give us a sense of your interest rate sensitivity? And let's say, the Fed does an additional 150 basis points here and then slows down. What would be a good way to think about run rate interest expense as we enter 2023?

Mark R. George
Executive VP of Finance & CFO

Well, Jeff, I mean, it will -- look, the weighted average interest rate in our overall debt portfolio today is below current rates. So with every new debt issuance that we have, it will be at higher rates than the average. It will start -- so as old maturities roll off, new ones come on. It's going to -- interest will start to go up a little bit. We're not so worried, frankly, because we do have a portfolio of debt that exceeds $14 billion or so. So I don't think it's going to be a meaningful drag on us going forward. And we haven't really seen the interest rates at levels yet that caused me much concern.

Jeffrey Asher Kauffman
Vertical Research Partners, LLC

Okay. So more a function of new issuance replacing old issuance as opposed to any interest rate sensitivity on future increases.

Mark R. George
Executive VP of Finance & CFO

Correct.

Alan H. Shaw
President, CEO & Director

We thank you for joining our call, and we look forward to continuing these discussions at our December 6 Investor Day.

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

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