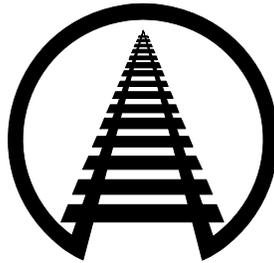


# **Rail Time Indicators**

*A Review of Key Economic Trends  
Shaping Demand for Rail Transportation*



**Policy & Economics Department  
Association of American Railroads  
Washington, DC**

**July 13, 2010**

*Rail Time Indicators* is a non-technical summary of many of the key economic indicators potentially of interest to U.S. freight railroads. It is issued monthly free of charge by the Policy and Economics Department of the Association of American Railroads.

To get on the e-mail distribution list for *Rail Time Indicators*, send a request including your name and business affiliation, if any, to Beth Eagney at [beagney@aar.org](mailto:beagney@aar.org).

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## SUMMARY OF MOST RECENT DATA

Economic Indicator	Most Recent Data
U.S. Freight Rail Traffic (p. 2)	<p><u>Not Seasonally Adjusted</u>: Carloads in June 2010 <b>↑ 10.6% from June 2009, ↓ 10.2% from June 2008</b>. Weekly average of 283,126 carloads in June 2010 ↓ from 288,419 in May 2010 and 294,758 in April 2010. Intermodal in June 2010 <b>↑ 19.2% from June 2009, ↓ 1.4% from June 2008</b>. Weekly average of 220,267 intermodal trailers and containers in June 2010 <b>highest since October 2008</b>.</p> <p><u>Seasonally Adjusted</u>: Carloads in June 2010 <b>↓ 1.3%</b> from May 2010; intermodal in June 2010 <b>↓ 1.1%</b> from May 2010.</p>
Canadian Freight Rail Traffic (p. 5)	<p><u>Not Seasonally Adjusted</u>: Carloads in June 2010 <b>↑ 23.0% from June 2009, ↓ 7.6% from June 2008</b>. Intermodal in June 2010 <b>↑ 25.5% from June 2009</b> and <b>↑ 1.4% from June 2008</b>.</p> <p><u>Seasonally Adjusted</u>: Carloads in June 2010 <b>↑ 1.1% from May 2010</b>. Intermodal in June 2010 <b>↑ 1.6%</b> from May 2010.</p>
Gross Domestic Prod. (p. 16)	<b>↑ 2.7%</b> in Q1 2010 (third estimate released June 25).
Purchasing Managers Index (p. 18)	<b>↓ to 56.2</b> in June 2010 from 59.7 in May 2010 and 60.4 in April 2010. New orders component <b>↓ to 58.5</b> in June 2010 from 65.7 in May 2010
Manufacturing Inventories and Sales (p. 19)	<b>Manufacturing sales ↓ 1.3%, manufacturing inventories ↓ 0.4%, and inventory-to-sales ratio ↑ 0.9%</b> in May 2010 from April 2010.
Industrial Production (p. 20)	<b>↑ 1.3%</b> in May 2010 from April 2010, the 11th straight monthly increase and the largest monthly increase since July 2009. Manufacturing rose 1.0% in May 2010 from April 2010.
Capacity Utilization (p. 21)	<b>↑ to 74.1%</b> in May 2010 from 73.1% in April 2010.
Employment (p. 22)	<b>↓ 125,000</b> in June 2010 from May 2010 as the loss of 225,000 Census-related jobs offset 83,000 new private sector jobs.
Unemployment Rate (p. 22)	<b>↓ to 9.5%</b> in June 2010 from 9.7% in May 2010. Drop in unemployment rate due mainly to sharp drop in size of labor force, not job growth.
Railroad Employment (p. 24)	<b>↑ 218</b> to 149,967 employees in May 2010 from 149,749 in April 2010.
Consumer Confidence (p. 25)	<b>↓ to 52.9</b> in June 2010 from 62.7 in May 2010.
Retail Sales (p. 26)	<b>↓ 1.2%</b> (\$4.4 billion) in May 2010 from April 2010.
Light Vehicle Sales (p. 27)	<b>↓ 4.8%</b> in June 2010 from May 2010 to annualized 11.1 million.
Housing Starts (p. 28)	<b>↓ 10.0%</b> in May 2010 from April 2010 to 593,000, the lowest of any month this year.
Consumer Price Index (p. 29)	<b>↓ 0.2%</b> in May 2010 from April 2010; “core” inflation was <b>up 0.1%</b> . Inflation is not a problem right now.
Exchange Rate Index (p. 30)	<b>↑ 0.6%</b> in June 2010 ( <i>i.e.</i> , dollar got stronger) from May 2010.
Rail Freight Cars in Storage (p. 30)	<b>↓ to 365,279</b> on July 1, 2010 (23.7% of the fleet) from 368,343 (23.8%) on June 1, 2010.

## U.S. AND CANADIAN FREIGHT RAILROAD TRAFFIC

### Who releases it and when?

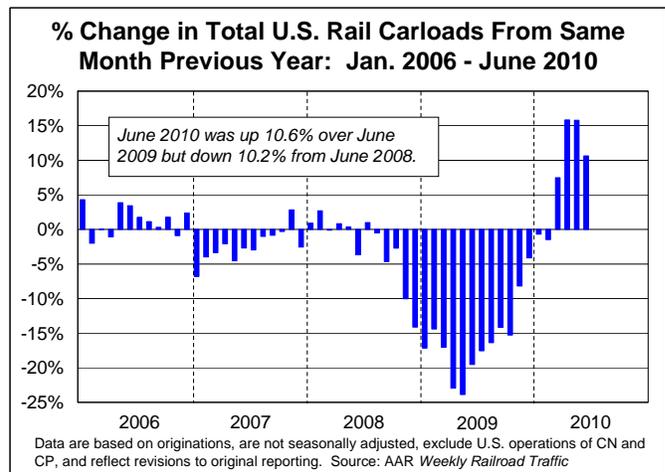
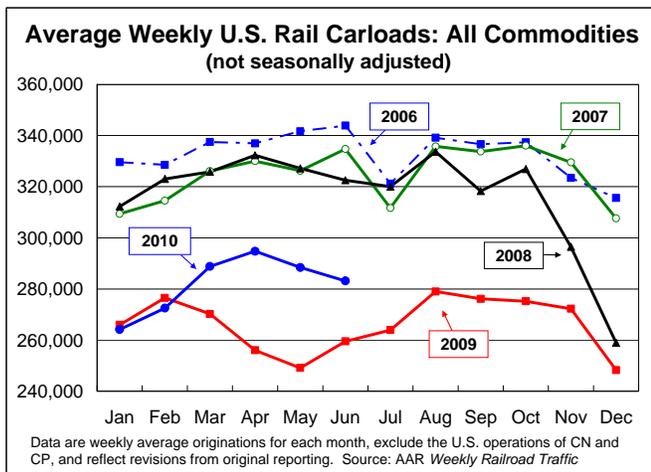
- The Association of American Railroads (AAR) releases its *Weekly Railroad Traffic* report every Thursday morning. The report contains rail traffic data for the previous week. Weekly data are aggregated into monthly figures in *Rail Time Indicators*. When comparing year-over-year rail traffic, comparisons are always made to the period 52 weeks prior to the present period.

### What is it and why is it important?

- The AAR traffic report details rail carloadings by railroad for 19 different major commodity categories, as well as intermodal units (truck trailers and containers). Railroads that report their data to the AAR collectively account for the vast majority of total U.S. and Canadian freight traffic.
- Freight railroading is a “derived demand” industry — demand for rail service occurs as a result of demand elsewhere in the economy for the products that railroads haul. Thus, rail traffic is a useful gauge of broad national and international economic activity.

### What are the latest numbers for U.S. railroads?

- U.S. freight railroads originated 1,415,630 carloads in June 2010, an average of 283,126 carloads per week — **up 10.6% from June 2009** (see chart below right) but **down 10.2% from June 2008** on a non-seasonally adjusted basis. In the **second quarter of 2010, carloads were up 13.8%** over the second quarter of 2009. For the first **six months of 2010, carloads were up 7.8%** over the first six months of 2009.
- June 2010’s weekly average of 283,126 carloads was **down from May 2010’s 288,419 average** and **down from April 2010’s 294,758 average** (see chart below left). In other words, after four straight months of increasing average carloads (January to April 2010), average weekly carloads have fallen for two straight months (May and June 2010) on a non-seasonally adjusted basis.



- On a **seasonally adjusted** basis, U.S. rail carloads fell 1.3% in June 2010 from May 2010 (see chart on page 15), following a 1.1% decline in May 2010 from April 2010. After bottoming out in May 2009, seasonally adjusted rail carloads trended upward, with some fits and starts along the way, through April 2010. They’ve now declined for two consecutive months.
- The declines in rail carloads over the past couple months have not been huge, and they certainly don’t prove that the wheels are coming off the economy’s bus. After all, the improvement in carloads this year over last year is still significant: **U.S. railroads originated 136,136 more carloads in June 2010, and 454,708 more carloads in the second quarter of 2010, than they did in the comparable periods in 2009.**

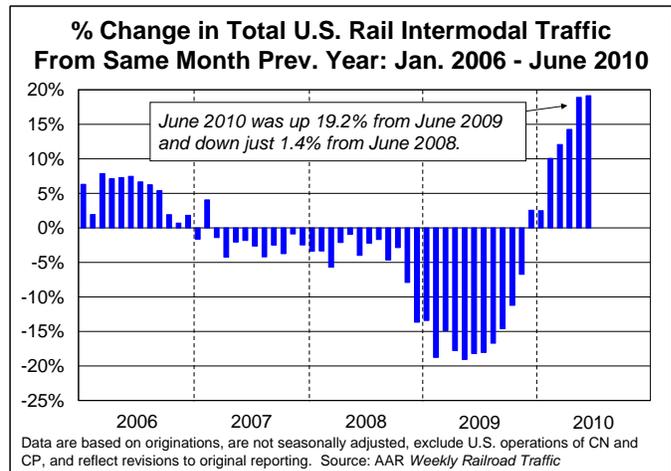
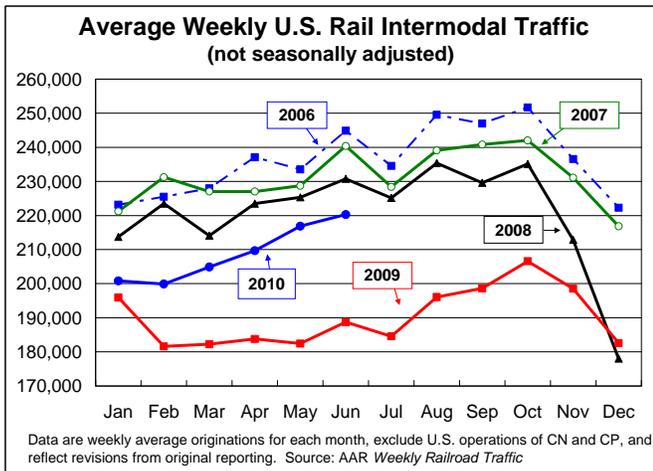
- That said, an economy several months into a recovery from the worst recession in decades should be yielding rail traffic levels heading north, not south. (Remember, demand for rail service occurs as a result of demand elsewhere in the economy for the products that railroads haul.) Thus, rail traffic in June 2010 is consistent with an economy that is in far better shape than it was nine months or a year ago, but is, in the words of former Federal Reserve Chairman Alan Greenspan, “more than likely” undergoing a “pause.”
- The table below shows where the carloads in June 2010 went compared to April and May 2010. On a non-seasonally adjusted basis, U.S. railroads originated **11,632 fewer carloads per week in June 2010 than in April 2010**, including 6,732 fewer carloads of coal, 1,756 fewer carloads of grain, 1,435 fewer carloads of chemicals, and 1,088 fewer carloads of waste and scrap materials. The decline in carloads is spread across various commodities rather than concentrated in just one or two. That too is consistent with the view that the broad economic recovery has lost some of its vigor in the past couple of months.

U.S. RAIL TRAFFIC: APRIL vs. MAY vs. JUNE 2010*					
Commodity	Apr. '10	May '10	June '10	Difference	
				Apr-June	May-June
<b>Agricultural &amp; food products</b>	<b>37,924</b>	<b>36,653</b>	<b>35,671</b>	<b>-2,253</b>	<b>-982</b>
Grain	20,958	19,751	19,202	-1,756	-549
Farm products excl. grain	849	880	808	-41	-71
Grain mill products	8,217	8,094	8,007	-209	-87
Food products	7,901	7,928	7,654	-247	-274
<b>Chemicals and petroleum</b>	<b>35,391</b>	<b>34,860</b>	<b>34,297</b>	<b>-1,094</b>	<b>-563</b>
Chemicals	29,872	29,063	28,437	-1,435	-627
Petroleum products	5,519	5,797	5,860	341	63
<b>Coal</b>	<b>132,530</b>	<b>126,481</b>	<b>125,797</b>	<b>-6,732</b>	<b>-684</b>
<b>Forest products</b>	<b>10,436</b>	<b>10,052</b>	<b>9,987</b>	<b>-449</b>	<b>-65</b>
Primary forest products	1,810	1,646	1,603	-207	-43
Lumber & wood products	3,037	2,837	2,511	-526	-326
Pulp & paper products	5,589	5,569	5,873	285	304
<b>Metallic ores and metals</b>	<b>19,572</b>	<b>20,680</b>	<b>20,539</b>	<b>967</b>	<b>-140</b>
Metallic ores	6,448	6,988	7,156	709	169
Coke	3,486	3,699	3,584	98	-115
Primary metal products	9,639	9,994	9,800	161	-194
<b>Motor vehicles &amp; parts</b>	<b>12,298</b>	<b>13,018</b>	<b>12,443</b>	<b>145</b>	<b>-575</b>
<b>Nonmetallic minerals &amp; prod.</b>	<b>31,770</b>	<b>32,428</b>	<b>31,285</b>	<b>-485</b>	<b>-1,143</b>
Crushed stone, gravel, sand	18,905	19,255	18,612	-293	-643
Nonmetallic minerals	5,373	5,706	5,311	-61	-395
Stone, clay & glass prod.	7,493	7,468	7,362	-131	-106
<b>Other</b>	<b>14,837</b>	<b>14,247</b>	<b>13,106</b>	<b>-1,731</b>	<b>-1,141</b>
Waste & scrap materials	9,149	8,704	8,061	-1,088	-643
All other carloads	5,688	5,543	5,045	-643	-498
<b>TOTAL ALL CARLOADS</b>	<b>294,758</b>	<b>288,419</b>	<b>283,126</b>	<b>-11,632</b>	<b>-5,293</b>

Figures are weekly averages. Source: AAR Weekly Railroad Traffic

- Commodities with the largest carload gains in June 2010 over June 2009 include steel and other primary metal products (up 21,547 carloads, or 78.5%), motor vehicles and parts (up 20,967 carloads, or 50.8%), and metallic ores (up 20,864 carloads, or 139.9%). The tables and charts beginning on page 6 have more commodity-level detail. In June 2010, **16 of the 19 major commodity categories saw carload gains compared to June 2009**, and one (the catch-all “all other” category) saw a gain in June 2010 compared to June 2008. 16 of the 19 commodity categories saw carload declines in June 2010 compared with May 2010 (see table above).

- U.S. railroads originated an average of **220,267 intermodal trailers and containers** per week in June 2010. That's the **highest weekly average since October 2008**, up **19.2% from June 2009**, and the **largest year-over-year monthly gain since AAR records begin in 1990** (breaking the previous record of 18.9% set in May 2010).
- Unlike U.S. rail carload traffic, U.S. rail intermodal volume **has risen for four straight months** on a non-seasonally adjusted basis (see chart below left). On a **seasonally adjusted** basis, though, U.S. rail intermodal traffic actually **fell 1.1% in June 2010 from May 2010** following three straight months in which seasonally adjusted intermodal volume rose (see the top right chart on page 15).

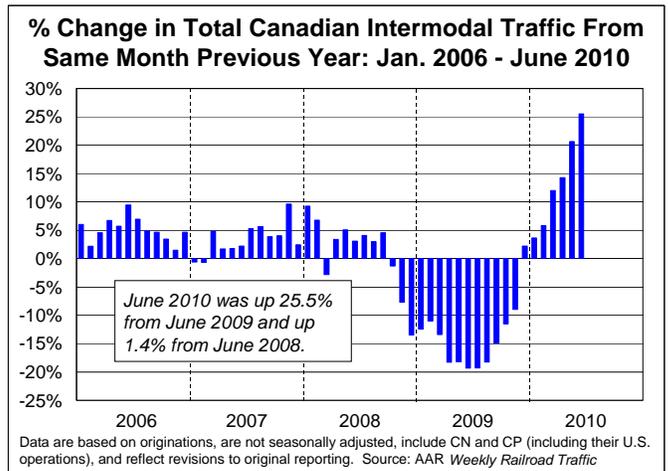
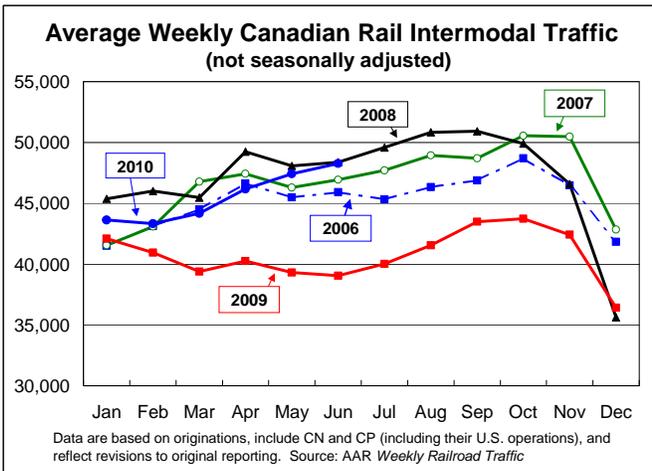
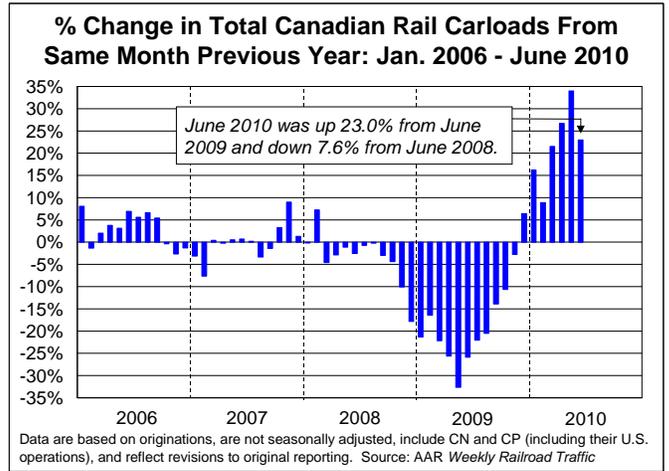
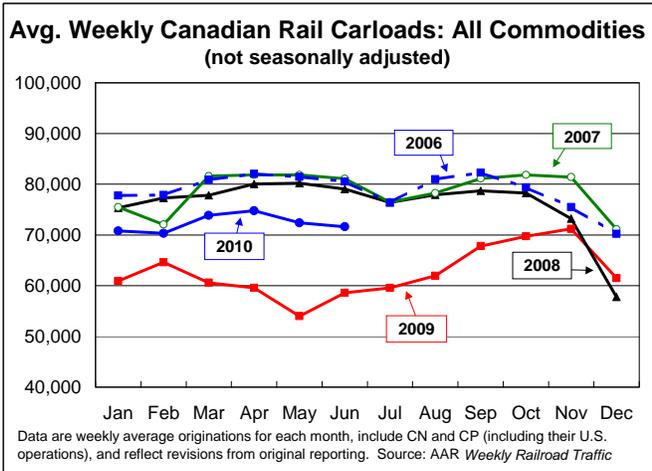


- Average weekly container volume on U.S. railroads in June 2010 was the ninth highest since 1990 (when AAR data begin), reflecting a years-long trend of **domestic freight converting from truck trailers on rail to containers on rail**. Average monthly truck trailer volume in 2009 and 2010 in some months has been only half what it was just a few years ago.
- Containers can usually be double-stacked on rail flat cars (this can't happen with trailers) and are often easier to handle than trailers. This makes using containers more efficient and cost effective for many shippers than using truck trailers. In 2000, trailers accounted for 31% of U.S. intermodal loadings. In 2010 through June, they accounted for 15%. Total U.S. intermodal volume in June 2010 was the 34<sup>th</sup>-highest month ever. The best rail intermodal months in history were in 2006 and 2007 (see chart above left).
- For the purposes of AAR rail traffic data, June 2010 consists of the five weeks from May 30 through July 3, 2010 — *i.e.*, it does not include the 4<sup>th</sup> of July but does include Memorial Day, which was observed on May 31 this year. By comparison, June 2009 consists of the five weeks from May 31 through July 4, 2009. June 2009 thus includes the 4<sup>th</sup> of July holiday (which was observed on July 3 in 2009) but does not include Memorial Day, which was observed on May 25 in 2009. Finally, June 2008 consists of the five weeks from June 1 through July 5, 2008, so it too includes the 4<sup>th</sup> of July holiday but excludes Memorial Day, which was observed on May 26, 2008. The bottom line is that June for all three years includes one major holiday.

**What are the latest numbers for Canadian railroads?**

- On a non-seasonally adjusted basis, Canadian railroads originated 358,217 carloads of freight in June 2010, an average of 71,643 carloads per week. That's **up 23.0% from June 2009** and **down 7.6% from June 2008**. Canadian carloads have fluctuated within a fairly narrow band for the first six months of 2010 (see the top left chart on the next page).

- Canadian carloads in June 2010 were **higher in 14 of the 19 commodity categories** from June 2009 and in **5 of the 19 categories from June 2008**. The biggest gains in June 2010 over June 2009 were in metallic ores (up 36,500 carloads, or 154.2%), chemicals (up 13,186 carloads, 23.9%), and motor vehicles and parts (up 8,919 carloads, 51.8%). See page 7 for more commodity-level detail.
- Canadian railroads also originated 241,376 trailers and containers in June 2010. At 48,275 units per week, that's the **highest weekly average since October 2008, up 25.5% from June 2009** (the highest year-over-year percentage increase ever), and **up 1.4% from June 2008**.
- On a **seasonally adjusted** basis, in June 2010 total Canadian rail carloads and intermodal trailers and containers were **up 1.1%** and **up 1.6%**, respectively, from May 2010 (see the charts in the middle of page 15).

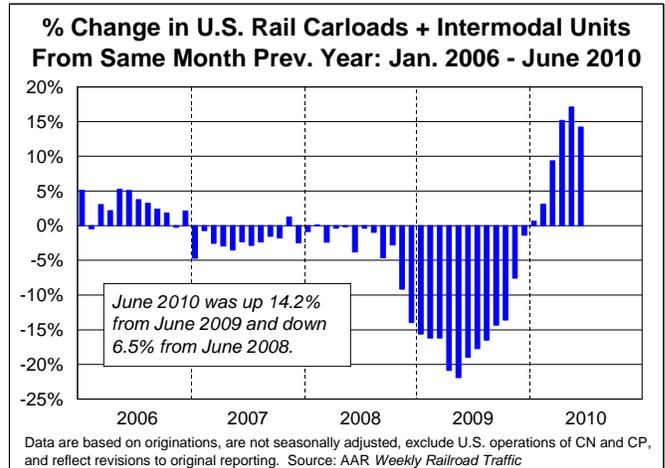
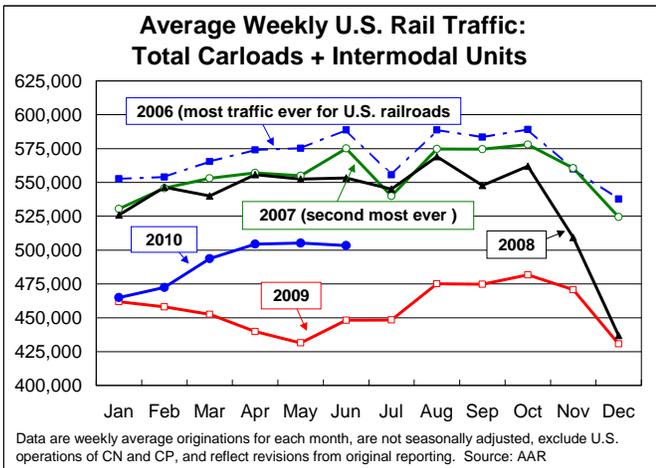


**U.S. RAIL TRAFFIC: JUNE 2010\***  
(5 weeks ending July 3, 2010)

Commodity	June '10	June '09	June '08	Difference		% Change	
				'10-'09	'10-'08	'10-'09	'10-'08
<b>Agricultural &amp; food products</b>	<b>178,355</b>	<b>171,449</b>	<b>203,706</b>	<b>6,906</b>	<b>-25,351</b>	<b>4.0%</b>	<b>-12.4%</b>
Grain	96,008	85,795	109,445	10,213	-13,437	11.9%	-12.3%
Farm products excl. grain	4,041	4,161	4,476	-120	-435	-2.9%	-9.7%
Grain mill products (1)	40,036	43,074	45,535	-3,038	-5,499	-7.1%	-12.1%
Food products	38,270	38,419	44,250	-149	-5,980	-0.4%	-13.5%
<b>Chemicals and petroleum</b>	<b>171,484</b>	<b>155,320</b>	<b>183,847</b>	<b>16,164</b>	<b>-12,363</b>	<b>10.4%</b>	<b>-6.7%</b>
Chemicals	142,183	127,446	152,475	14,737	-10,292	11.6%	-6.7%
Petroleum products (2)	29,301	27,874	31,372	1,427	-2,071	5.1%	-6.6%
<b>Coal</b>	<b>628,987</b>	<b>616,121</b>	<b>662,431</b>	<b>12,866</b>	<b>-33,444</b>	<b>2.1%</b>	<b>-5.0%</b>
<b>Forest products</b>	<b>49,936</b>	<b>48,951</b>	<b>66,665</b>	<b>985</b>	<b>-16,729</b>	<b>2.0%</b>	<b>-25.1%</b>
Primary forest products (3)	8,016	7,702	10,843	314	-2,827	4.1%	-26.1%
Lumber & wood products	12,554	11,940	19,069	614	-6,515	5.1%	-34.2%
Pulp & paper products	29,366	29,309	36,753	57	-7,387	0.2%	-20.1%
<b>Metallic ores and metals</b>	<b>102,696</b>	<b>54,852</b>	<b>124,729</b>	<b>47,844</b>	<b>-22,033</b>	<b>87.2%</b>	<b>-17.7%</b>
Metallic ores (4)	35,780	14,916	42,227	20,864	-6,447	139.9%	-15.3%
Coke	17,918	12,485	19,480	5,433	-1,562	43.5%	-8.0%
Primary metal products (5)	48,998	27,451	63,022	21,547	-14,024	78.5%	-22.3%
<b>Motor vehicles &amp; parts</b>	<b>62,216</b>	<b>41,249</b>	<b>83,461</b>	<b>20,967</b>	<b>-21,245</b>	<b>50.8%</b>	<b>-25.5%</b>
<b>Nonmetallic minerals &amp; prod.</b>	<b>156,426</b>	<b>135,544</b>	<b>176,298</b>	<b>20,882</b>	<b>-19,872</b>	<b>15.4%</b>	<b>-11.3%</b>
Crushed stone, gravel, sand	93,060	77,108	102,891	15,952	-9,831	20.7%	-9.6%
Nonmetallic minerals (6)	26,557	23,748	29,213	2,809	-2,656	11.8%	-9.1%
Stone, clay & glass prod. (7)	36,809	34,688	44,194	2,121	-7,385	6.1%	-16.7%
<b>Other</b>	<b>65,530</b>	<b>56,008</b>	<b>74,586</b>	<b>9,522</b>	<b>-9,056</b>	<b>17.0%</b>	<b>-12.1%</b>
Waste & scrap materials (8)	40,305	32,687	50,864	7,618	-10,559	23.3%	-20.8%
All other carloads	25,225	23,321	23,722	1,904	1,503	8.2%	6.3%
<b>TOTAL ALL CARLOADS</b>	<b>1,415,630</b>	<b>1,279,494</b>	<b>1,575,723</b>	<b>136,136</b>	<b>-160,093</b>	<b>10.6%</b>	<b>-10.2%</b>
Trailers	162,201	151,668	243,728	10,533	-81,527	6.9%	-33.4%
Containers	939,132	772,622	873,439	166,510	65,693	21.6%	7.5%
<b>TOTAL ALL INTERMODAL</b>	<b>1,101,333</b>	<b>924,290</b>	<b>1,117,167</b>	<b>177,043</b>	<b>-15,834</b>	<b>19.2%</b>	<b>-1.4%</b>

- (1) - flour, animal feed, corn syrup, corn starch, soybean meal, etc.
- (2) - liquefied gases, asphalt, fuel oil, lubricating oil, jet fuel, etc.
- (3) - wood raw materials such as pulpwood and wood chips
- (4) - overwhelmingly iron ore, but some aluminum ore, copper ore, etc.
- (5) - primarily iron & steel products; some aluminum, copper, etc.
- (6) - phosphate rock, rock salt, crude sulphur, clay, etc.
- (7) - cement, ground earths or minerals, gypsum, etc.
- (8) - scrap metal and paper, construction debris, ashes, etc.

\*Data are originations and are not seasonally adjusted. Includes BNSF, CSX, KCS, NS, UP, Birmingham Southern, Florida East Coast, Lake Superior & Ishpeming, and Paducah & Louisville. Does not include CN's and CP's U.S. operations. Source: AAR *Weekly Railroad Traffic*

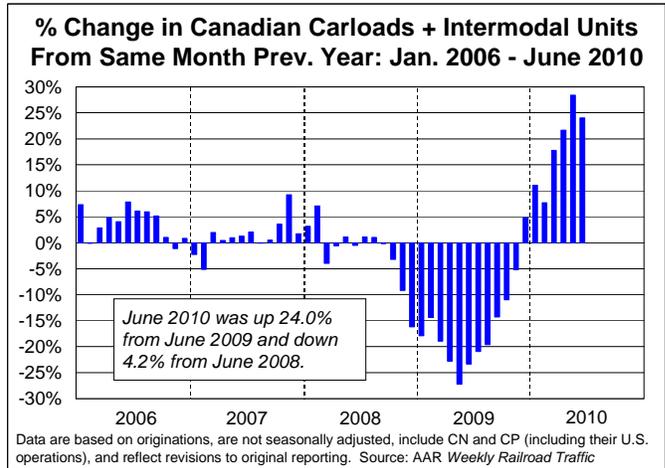
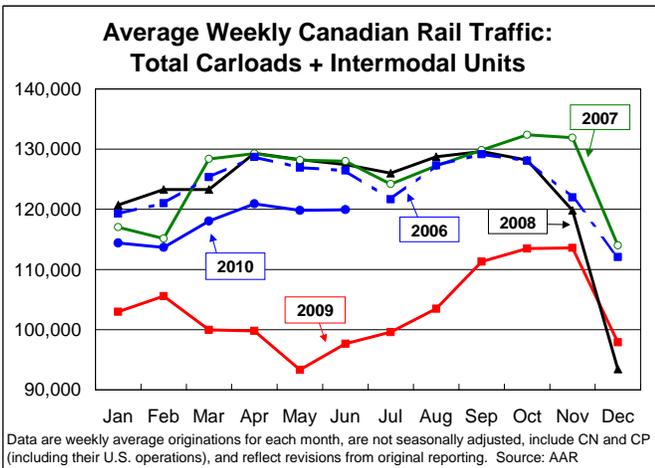


**CANADIAN RAIL TRAFFIC: JUNE 2010\***  
(5 weeks ending July 3, 2010)

Commodity	June '10	June '09	June '08	Difference		% Change	
				'10-'09	'10-'08	'10-'09	'10-'08
<b>Agricultural &amp; food products</b>	<b>71,048</b>	<b>79,413</b>	<b>67,887</b>	<b>-8,365</b>	<b>3,161</b>	<b>-10.5%</b>	<b>4.7%</b>
Grain	39,025	47,669	40,255	-8,644	-1,230	-18.1%	-3.1%
Farm products excl. grain	13,287	14,364	9,010	-1,077	4,277	-7.5%	47.5%
Grain mill products (1)	6,920	7,086	8,240	-166	-1,320	-2.3%	-16.0%
Food products	11,816	10,294	10,382	1,522	1,434	14.8%	13.8%
<b>Chemicals and petroleum</b>	<b>71,685</b>	<b>58,052</b>	<b>76,102</b>	<b>13,633</b>	<b>-4,417</b>	<b>23.5%</b>	<b>-5.8%</b>
Chemicals	68,438	55,252	72,705	13,186	-4,267	23.9%	-5.9%
Petroleum products (2)	3,247	2,800	3,397	447	-150	16.0%	-4.4%
<b>Coal</b>	<b>41,310</b>	<b>37,980</b>	<b>40,395</b>	<b>3,330</b>	<b>915</b>	<b>8.8%</b>	<b>2.3%</b>
<b>Forest products</b>	<b>36,096</b>	<b>34,370</b>	<b>44,599</b>	<b>1,726</b>	<b>-8,503</b>	<b>5.0%</b>	<b>-19.1%</b>
Primary forest products (3)	7,791	6,910	9,418	881	-1,627	12.7%	-17.3%
Lumber & wood products	11,045	10,313	13,694	732	-2,649	7.1%	-19.3%
Pulp & paper products	17,260	17,147	21,487	113	-4,227	0.7%	-19.7%
<b>Metallic ores and metals</b>	<b>74,508</b>	<b>32,826</b>	<b>85,091</b>	<b>41,682</b>	<b>-10,583</b>	<b>127.0%</b>	<b>-12.4%</b>
Metallic ores (4)	60,173	23,673	68,926	36,500	-8,753	154.2%	-12.7%
Coke	3,264	1,963	2,020	1,301	1,244	66.3%	61.6%
Primary metal products (5)	11,071	7,190	14,145	3,881	-3,074	54.0%	-21.7%
<b>Motor vehicles &amp; parts</b>	<b>26,148</b>	<b>17,229</b>	<b>28,426</b>	<b>8,919</b>	<b>-2,278</b>	<b>51.8%</b>	<b>-8.0%</b>
<b>Nonmetallic minerals &amp; prod.</b>	<b>27,768</b>	<b>21,358</b>	<b>32,326</b>	<b>6,410</b>	<b>-4,558</b>	<b>30.0%</b>	<b>-14.1%</b>
Crushed stone, gravel, sand	15,006	8,891	14,876	6,115	130	68.8%	0.9%
Nonmetallic minerals (6)	5,748	6,378	9,229	-630	-3,481	-9.9%	-37.7%
Stone, clay & glass prod. (7)	7,014	6,089	8,221	925	-1,207	15.2%	-14.7%
<b>Other</b>	<b>9,654</b>	<b>10,042</b>	<b>12,820</b>	<b>-388</b>	<b>-3,166</b>	<b>-3.9%</b>	<b>-24.7%</b>
Waste & scrap materials (8)	5,854	5,075	8,363	779	-2,509	15.3%	-30.0%
All other carloads	3,800	4,967	4,457	-1,167	-657	-23.5%	-14.7%
<b>TOTAL ALL CARLOADS</b>	<b>358,217</b>	<b>291,270</b>	<b>387,646</b>	<b>66,947</b>	<b>-29,429</b>	<b>23.0%</b>	<b>-7.6%</b>
Trailers	8,446	7,567	10,259	879	-1,813	11.6%	-17.7%
Containers	232,930	184,691	227,886	48,239	5,044	26.1%	2.2%
<b>TOTAL ALL INTERMODAL</b>	<b>241,376</b>	<b>192,258</b>	<b>238,145</b>	<b>49,118</b>	<b>3,231</b>	<b>25.5%</b>	<b>1.4%</b>

- (1) - flour, animal feed, corn syrup, corn starch, soybean meal, etc.
- (2) - liquefied gases, asphalt, fuel oil, lubricating oil, jet fuel, etc.
- (3) - wood raw materials such as pulpwood and wood chips
- (4) - overwhelmingly iron ore, but some aluminum ore, copper ore, etc.
- (5) - primarily iron & steel products; some aluminum, copper, etc.
- (6) - phosphate rock, rock salt, crude sulphur, clay, etc.
- (7) - cement, ground earths or minerals, gypsum, etc.
- (8) - scrap metal and paper, construction debris, ashes, etc.

\*CN and CP, including their U.S. operations. Data are originations and are not seasonally adjusted. Source: AAR Weekly Railroad Traffic

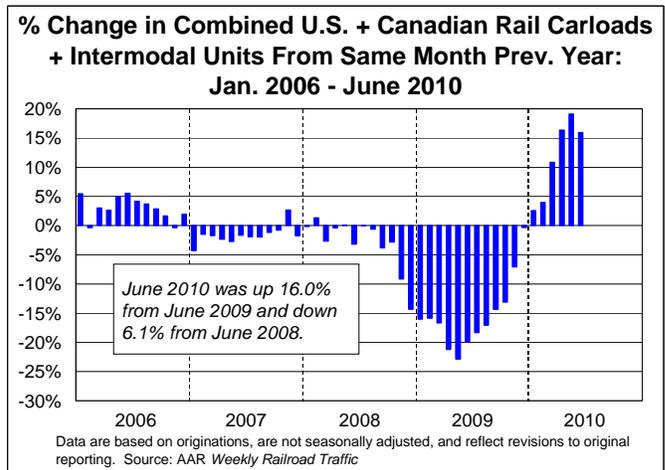
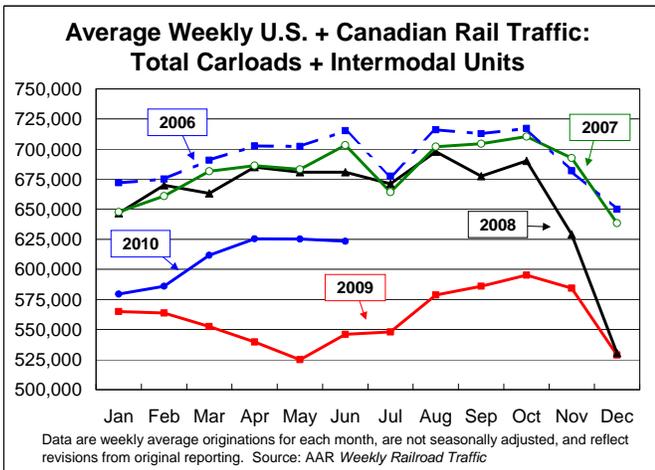


**COMBINED U.S. AND CANADIAN RAIL TRAFFIC: JUNE 2010\***  
(5 weeks ending July 3, 2010)

Commodity	June '10	June '09	June '08	Difference		% Change	
				'10-'09	'10-'08	'10-'09	'10-'08
<b>Agricultural &amp; food products</b>	<b>249,403</b>	<b>250,862</b>	<b>271,593</b>	<b>-1,459</b>	<b>-22,190</b>	<b>-0.6%</b>	<b>-8.2%</b>
Grain	135,033	133,464	149,700	1,569	-14,667	1.2%	-9.8%
Farm products excl. grain	17,328	18,525	13,486	-1,197	3,842	-6.5%	28.5%
Grain mill products (1)	46,956	50,160	53,775	-3,204	-6,819	-6.4%	-12.7%
Food products	50,086	48,713	54,632	1,373	-4,546	2.8%	-8.3%
<b>Chemicals and petroleum</b>	<b>243,169</b>	<b>213,372</b>	<b>259,949</b>	<b>29,797</b>	<b>-16,780</b>	<b>14.0%</b>	<b>-6.5%</b>
Chemicals	210,621	182,698	225,180	27,923	-14,559	15.3%	-6.5%
Petroleum products (2)	32,548	30,674	34,769	1,874	-2,221	6.1%	-6.4%
<b>Coal</b>	<b>670,297</b>	<b>654,101</b>	<b>702,826</b>	<b>16,196</b>	<b>-32,529</b>	<b>2.5%</b>	<b>-4.6%</b>
<b>Forest products</b>	<b>86,032</b>	<b>83,321</b>	<b>111,264</b>	<b>2,711</b>	<b>-25,232</b>	<b>3.3%</b>	<b>-22.7%</b>
Primary forest products (3)	15,807	14,612	20,261	1,195	-4,454	8.2%	-22.0%
Lumber & wood products	23,599	22,253	32,763	1,346	-9,164	6.0%	-28.0%
Pulp & paper products	46,626	46,456	58,240	170	-11,614	0.4%	-19.9%
<b>Metallic ores and metals</b>	<b>177,204</b>	<b>87,678</b>	<b>209,820</b>	<b>89,526</b>	<b>-32,616</b>	<b>102.1%</b>	<b>-15.5%</b>
Metallic ores (4)	95,953	38,589	111,153	57,364	-15,200	148.7%	-13.7%
Coke	21,182	14,448	21,500	6,734	-318	46.6%	-1.5%
Primary metal products (5)	60,069	34,641	77,167	25,428	-17,098	73.4%	-22.2%
<b>Motor vehicles &amp; parts</b>	<b>88,364</b>	<b>58,478</b>	<b>111,887</b>	<b>29,886</b>	<b>-23,523</b>	<b>51.1%</b>	<b>-21.0%</b>
<b>Nonmetallic minerals &amp; prod.</b>	<b>184,194</b>	<b>156,902</b>	<b>208,624</b>	<b>27,292</b>	<b>-24,430</b>	<b>17.4%</b>	<b>-11.7%</b>
Crushed stone, gravel, sand	108,066	85,999	117,767	22,067	-9,701	25.7%	-8.2%
Nonmetallic minerals (6)	32,305	30,126	38,442	2,179	-6,137	7.2%	-16.0%
Stone, clay & glass prod. (7)	43,823	40,777	52,415	3,046	-8,592	7.5%	-16.4%
<b>Other</b>	<b>75,184</b>	<b>66,050</b>	<b>87,406</b>	<b>9,134</b>	<b>-12,222</b>	<b>13.8%</b>	<b>-14.0%</b>
Waste & scrap materials (8)	46,159	37,762	59,227	8,397	-13,068	22.2%	-22.1%
All other carloads	29,025	28,288	28,179	737	846	2.6%	3.0%
<b>TOTAL ALL CARLOADS</b>	<b>1,773,847</b>	<b>1,570,764</b>	<b>1,963,369</b>	<b>203,083</b>	<b>-189,522</b>	<b>12.9%</b>	<b>-9.7%</b>
Trailers	170,647	159,235	253,987	11,412	-83,340	7.2%	-32.8%
Containers	1,172,062	957,313	1,101,325	214,749	70,737	22.4%	6.4%
<b>TOTAL ALL INTERMODAL</b>	<b>1,342,709</b>	<b>1,116,548</b>	<b>1,355,312</b>	<b>226,161</b>	<b>-12,603</b>	<b>20.3%</b>	<b>-0.9%</b>

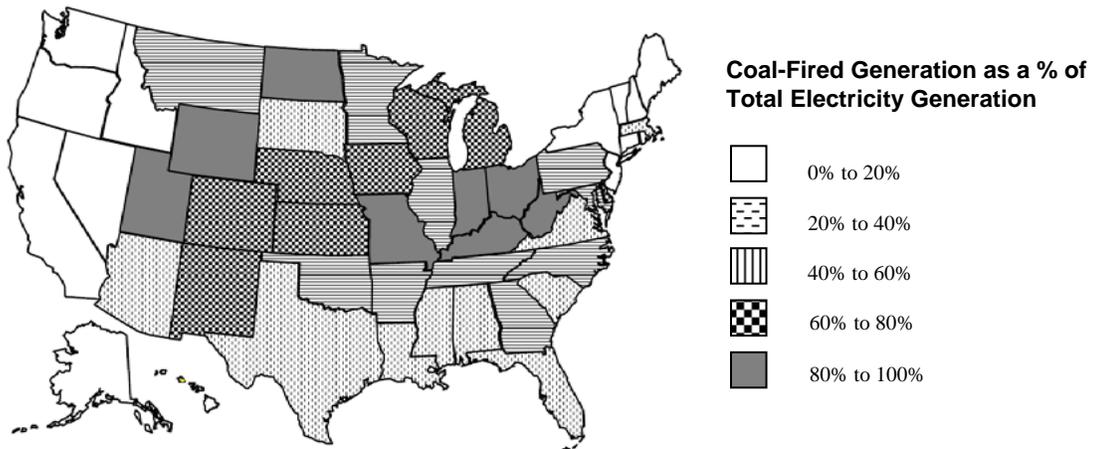
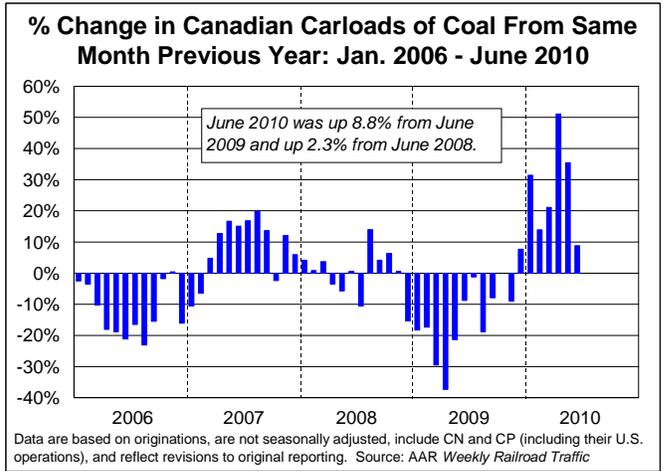
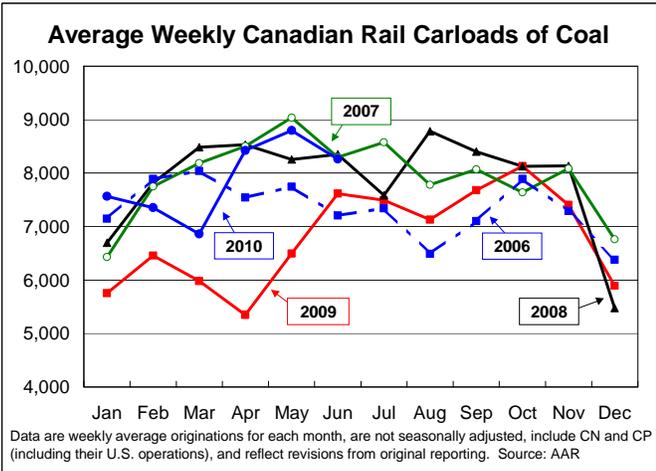
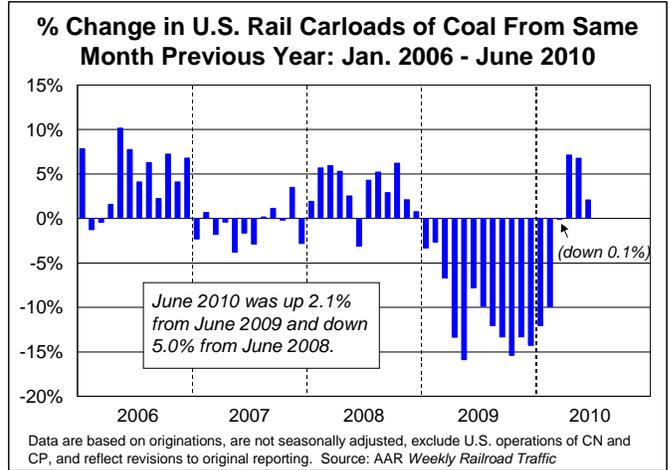
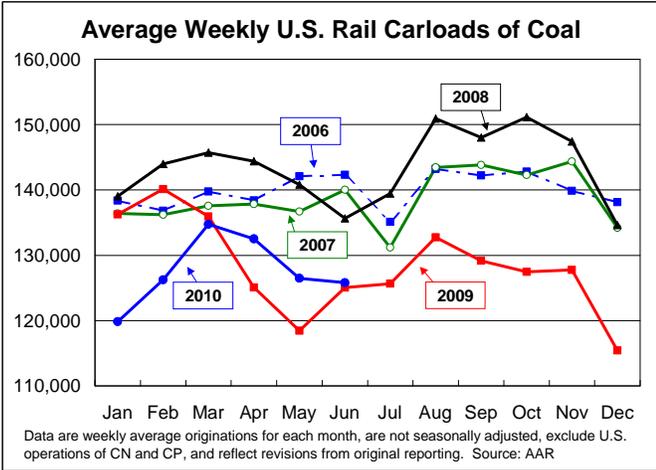
- (1) - flour, animal feed, corn syrup, corn starch, soybean meal, etc.
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\*Data are originations and are not seasonally adjusted. Source: AAR Weekly Railroad Traffic



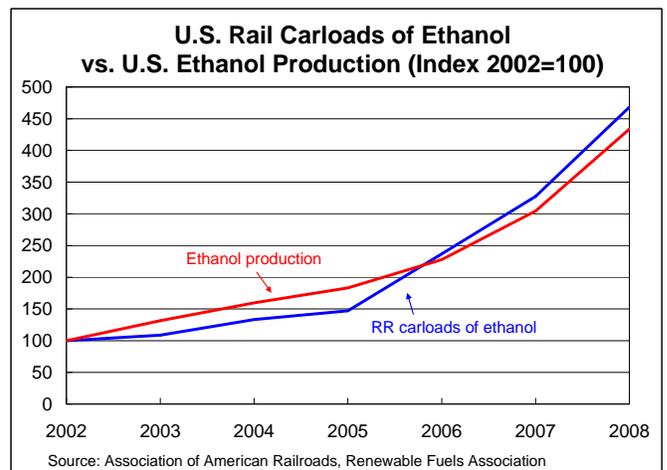
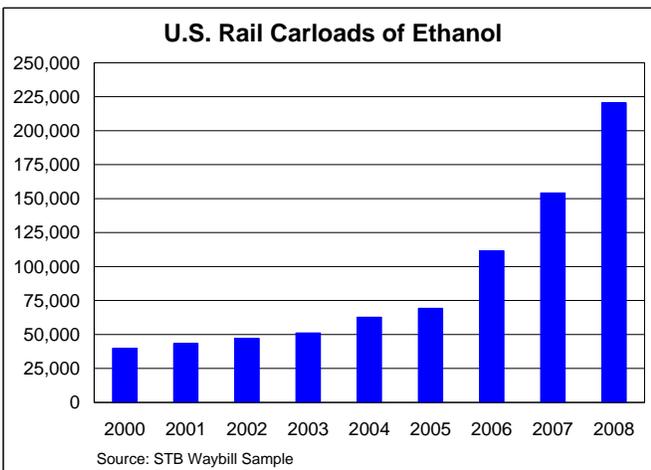
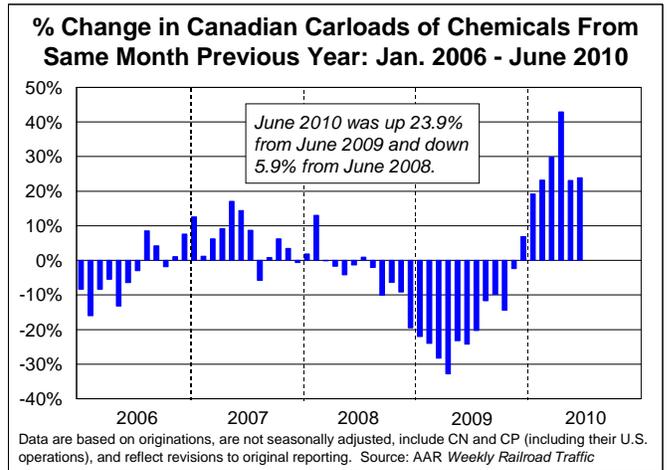
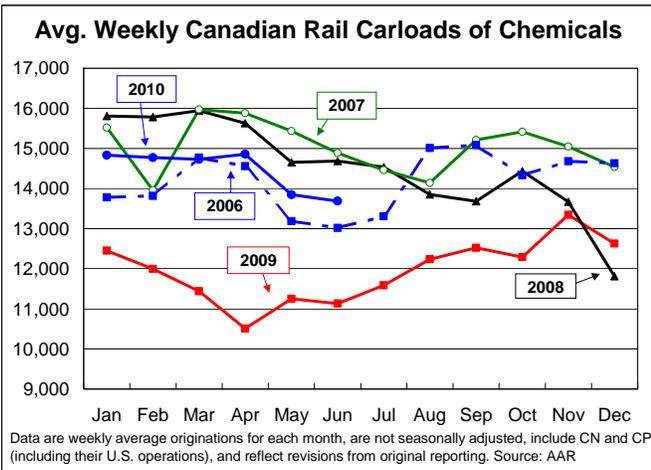
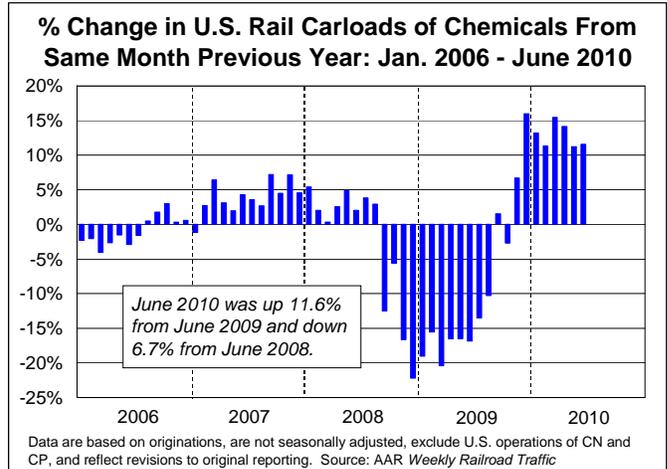
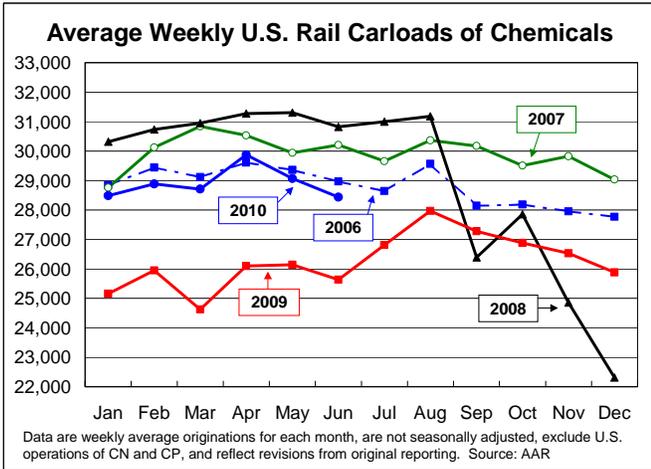
**COAL**

U.S. railroads averaged 125,797 carloads of coal per week in June 2010, the lowest weekly average since January 2010 and the third straight monthly decline. Most coal is used to generate electricity, but different fuels dominate electricity generation in different states. For example, Indiana was the 11th-largest electricity generator in 2009, with coal accounting for 93% of its generation. California was the 4th-largest electricity generator, but coal accounted for just 1% of its generation. Generators in California, the Pacific Northwest, and much of New England don't burn much coal, while those in the Midwest, Southeast, and Southwest burn much more (see map below). All else equal, hot summer weather in areas that rely heavily on coal-fired generation means more coal shipments.



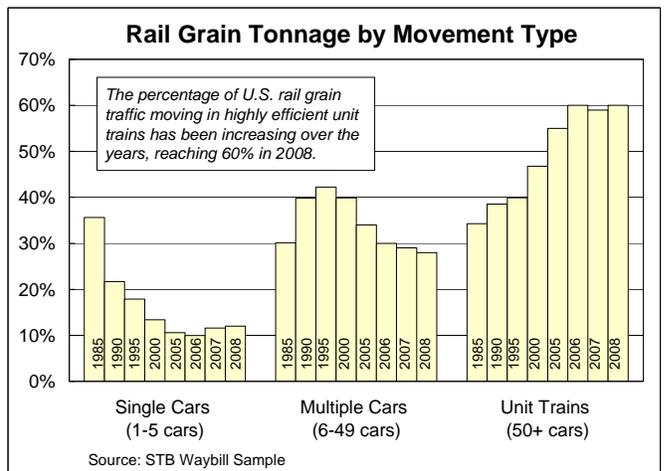
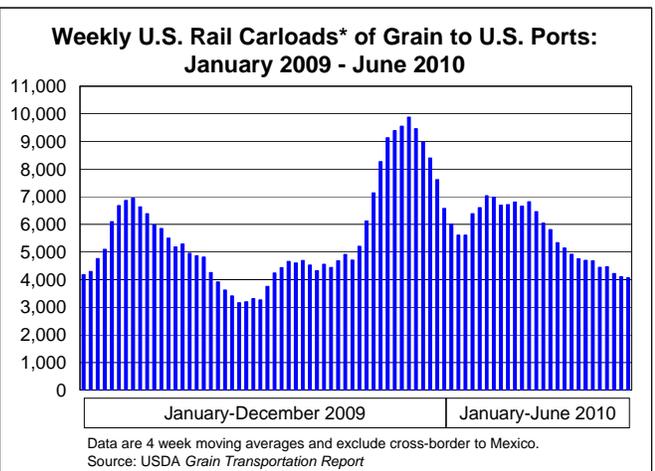
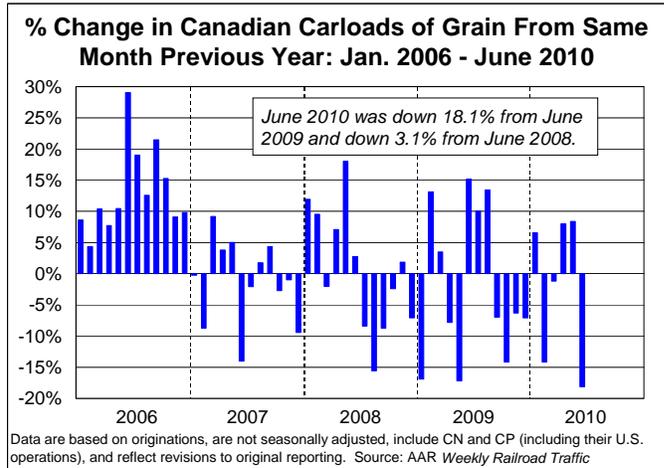
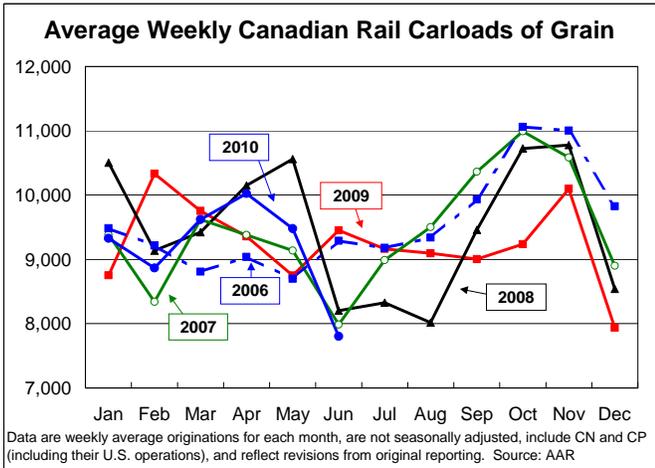
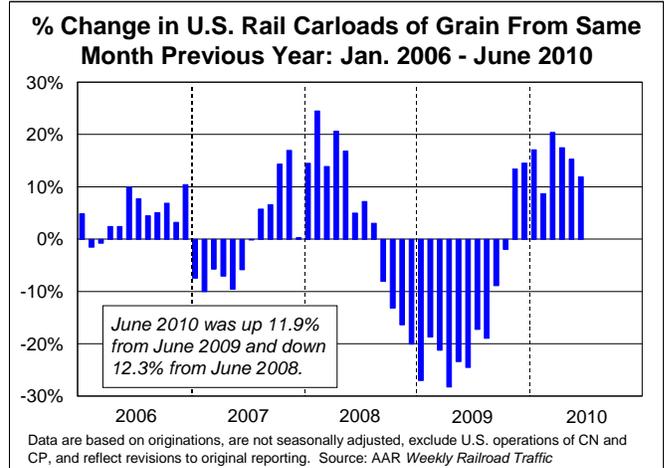
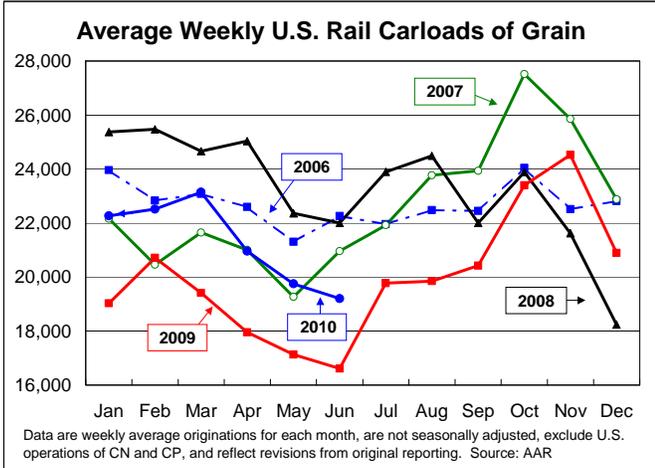
**CHEMICALS**

U.S. rail carloads of chemicals rose 11.6% in June 2010 over June 2009, the seventh straight double-digit year-over-year monthly increase. However, weekly average chemical carloads in June 2010 on U.S. railroads of 28,437 were down for the second straight month. Carloads on Canadian carriers have fallen for two straight months as well. As the chart on the bottom left shows, ethanol (which is considered a chemical) is a small but rapidly growing commodity for railroads. In 2008 (the most recent year for which data are available), railroads hauled more than 220,000 carloads of ethanol, up from fewer than 40,000 in 2000. Railroads account for about two-thirds of ethanol shipments.

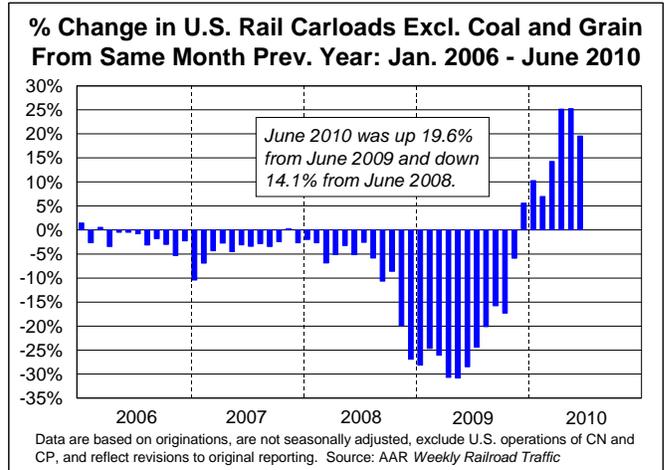
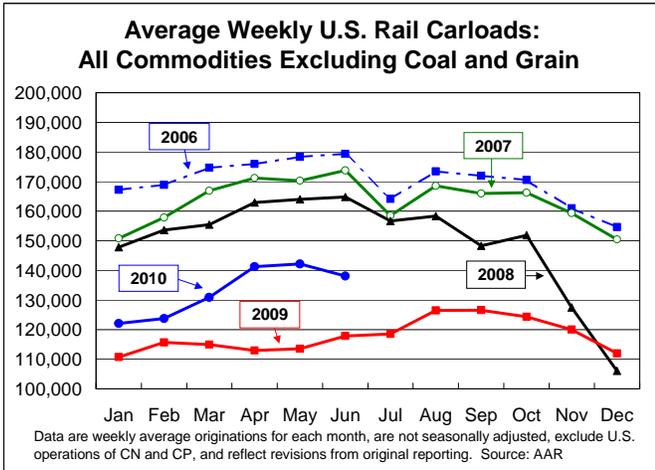


**GRAIN**

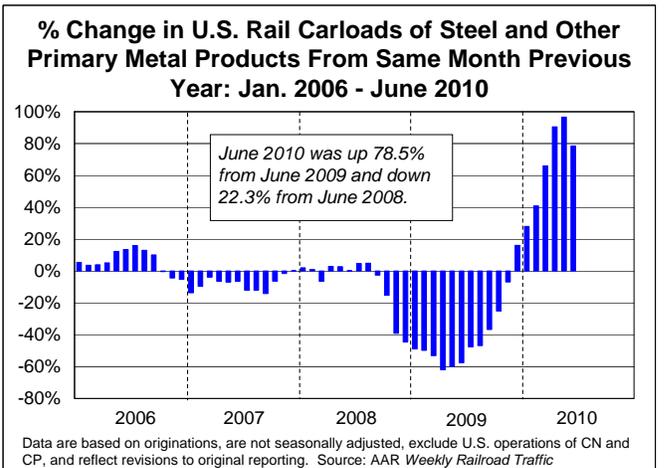
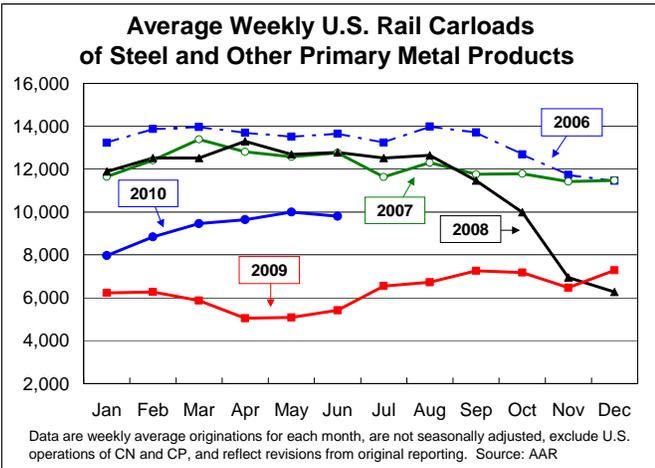
U.S. railroads averaged 19,202 carloads of grain per week in June 2010, the lowest such figure in a year but still ahead of last year by 12%. In last month's *Rail Time Indicators* we noted the importance of grain exports. The U.S. is the world's top grain exporter, with nearly half the U.S. wheat crop, around 40% of soybeans and around 15% of corn exported. The chart on the bottom left, from USDA, shows weekly U.S. rail carloads of grain to port in 2009 and 2010. Note the decline in the second quarter of 2010, which helps explain the decline in total U.S. grain carloads over the past three months.



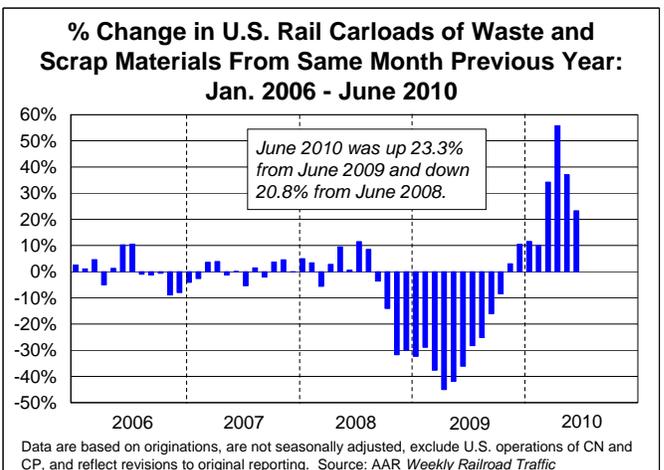
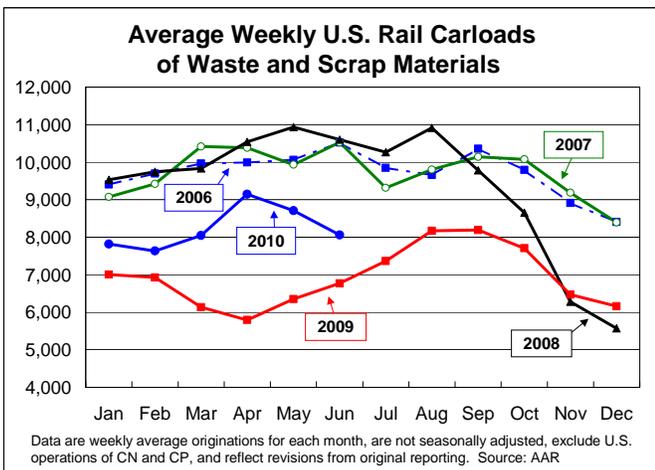
**ALL COMMODITIES EXCLUDING COAL AND GRAIN**



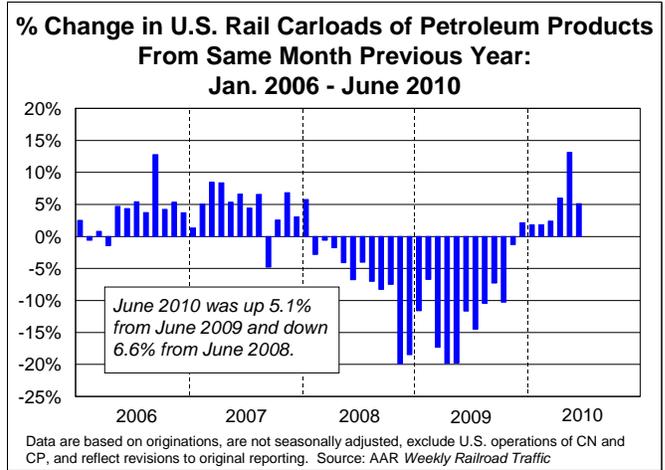
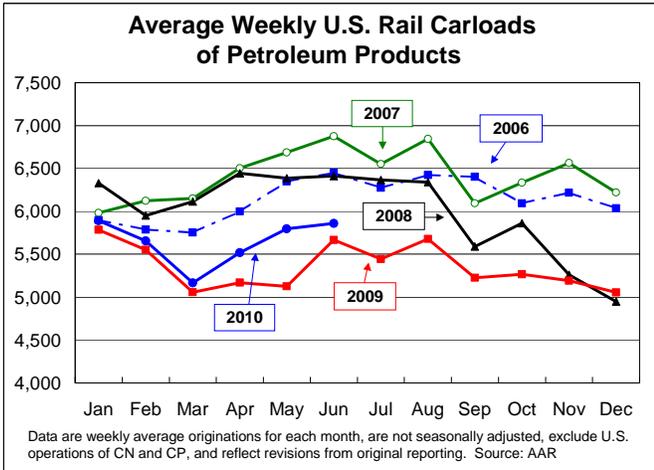
**PRIMARY METAL PRODUCTS (MAINLY STEEL)**



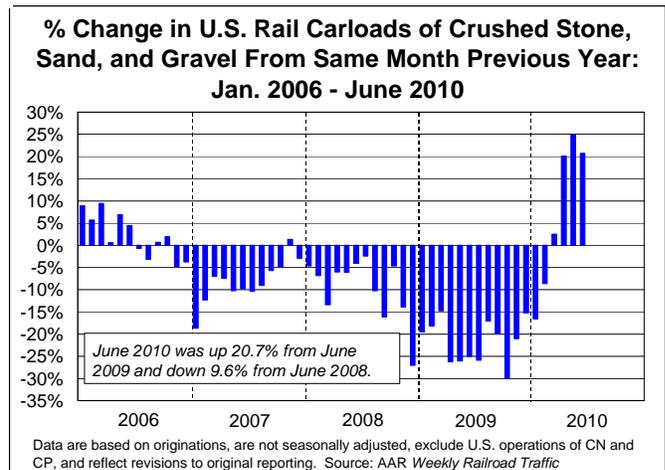
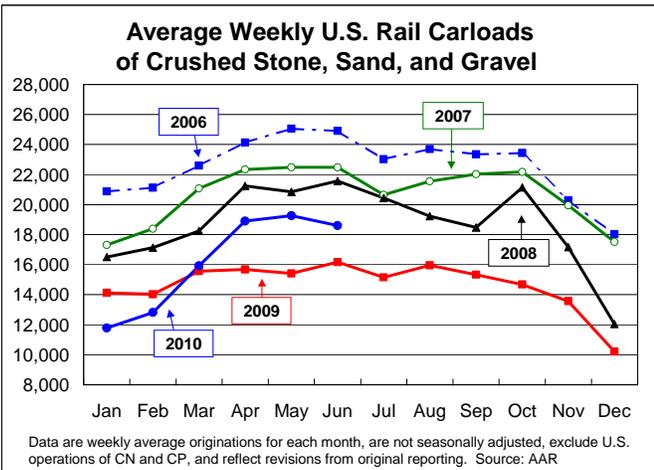
**WASTE & SCRAP MATERIALS (SCRAP STEEL, SCRAP PAPER, CONSTRUCTION DEBRIS, ETC.)**



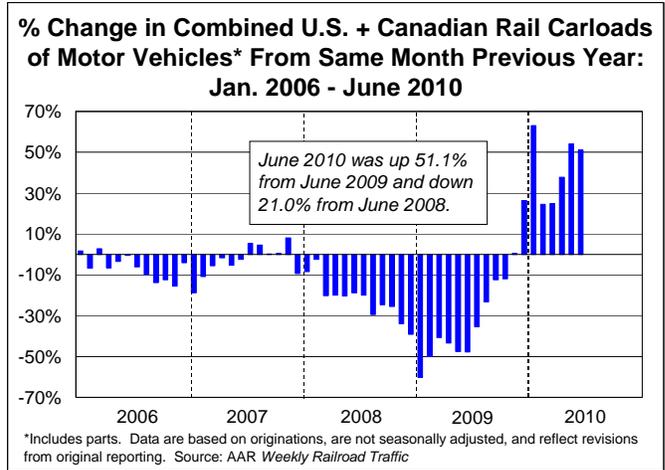
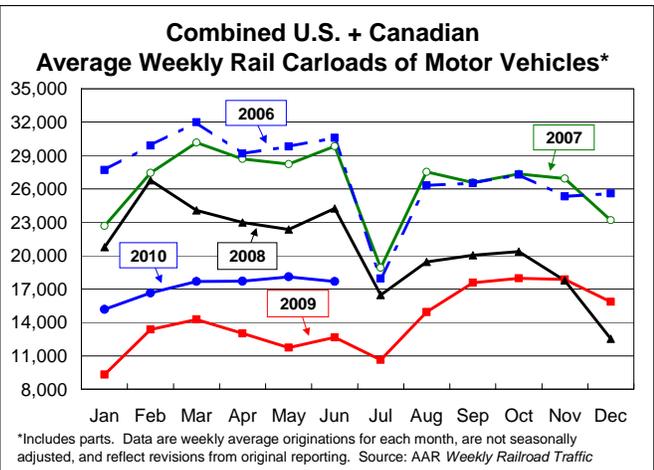
**PETROLEUM PRODUCTS (LPGs, ASPHALT PRODUCTS, FUEL OIL, LUBRICATING OIL, ETC.)**



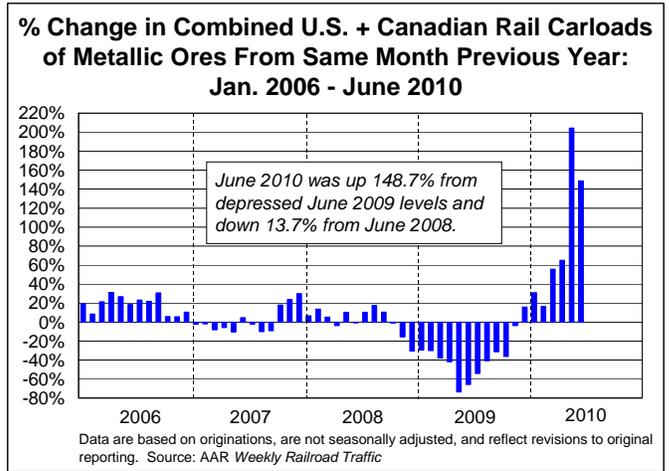
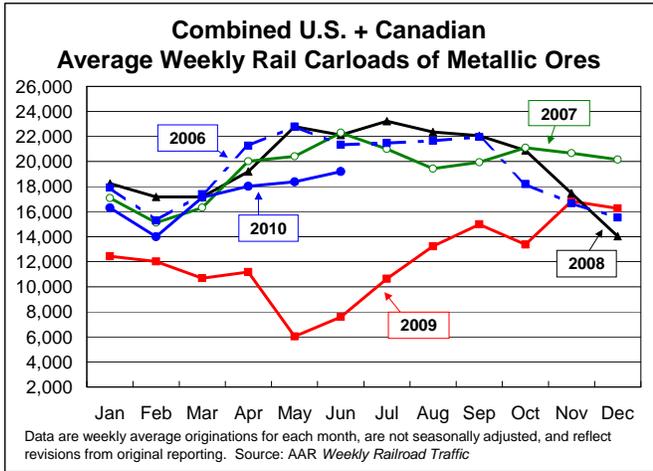
**CRUSHED STONE, SAND, AND GRAVEL**



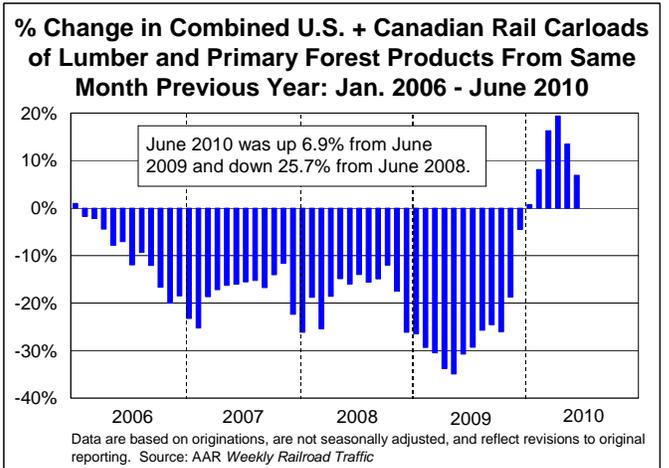
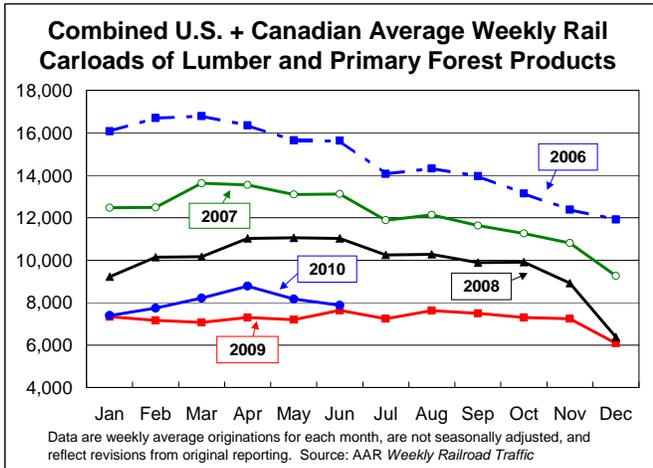
**MOTOR VEHICLES AND PARTS**



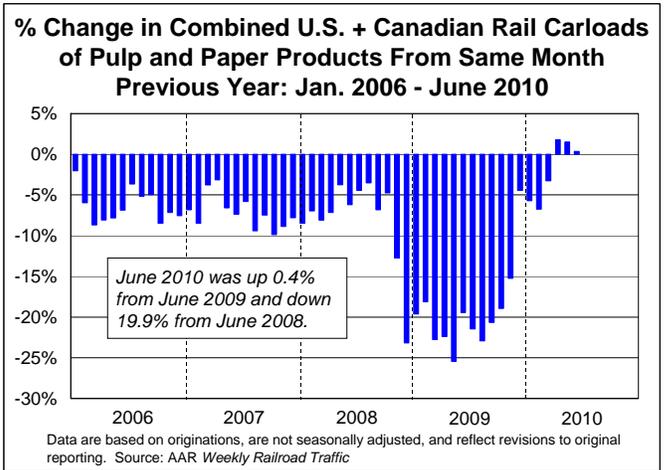
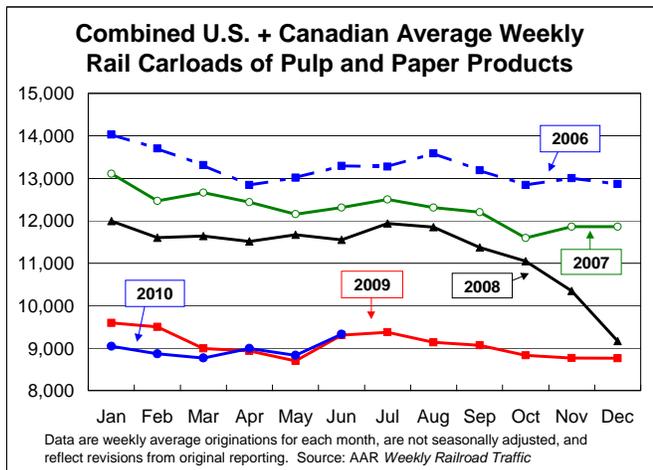
**METALLIC ORES (OVERWHELMINGLY IRON ORE)**



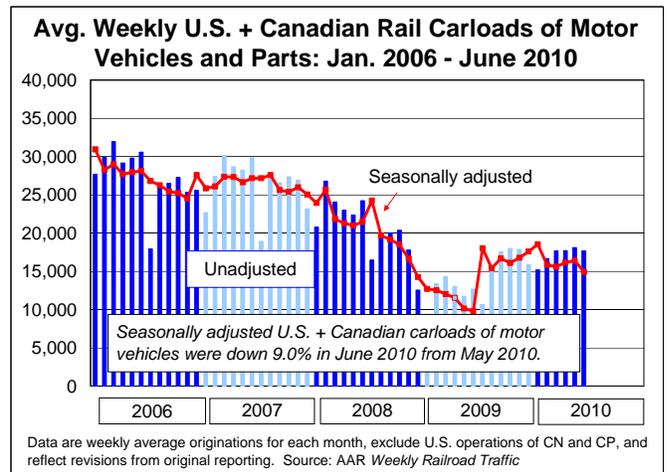
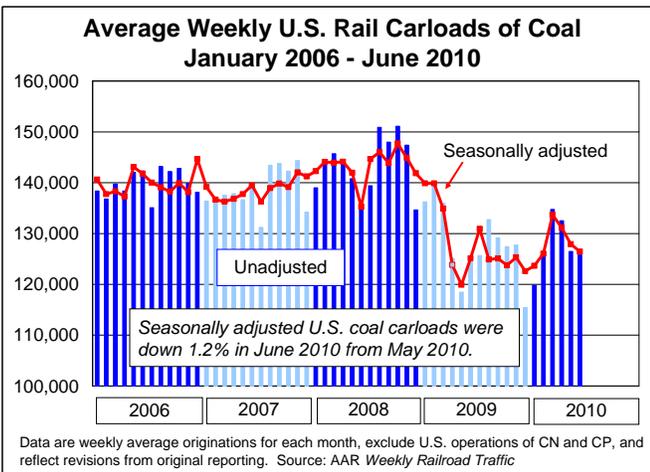
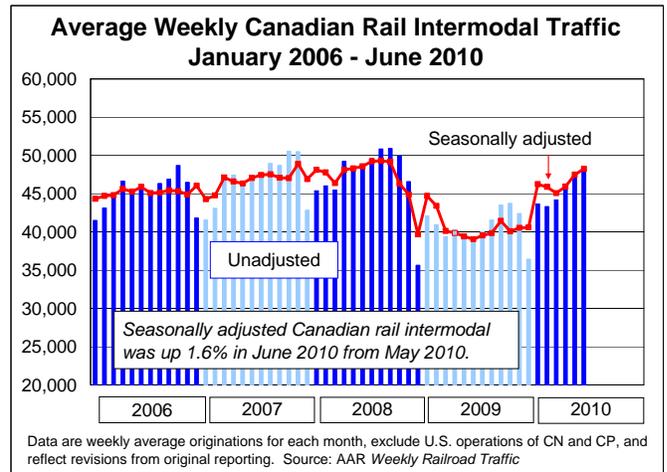
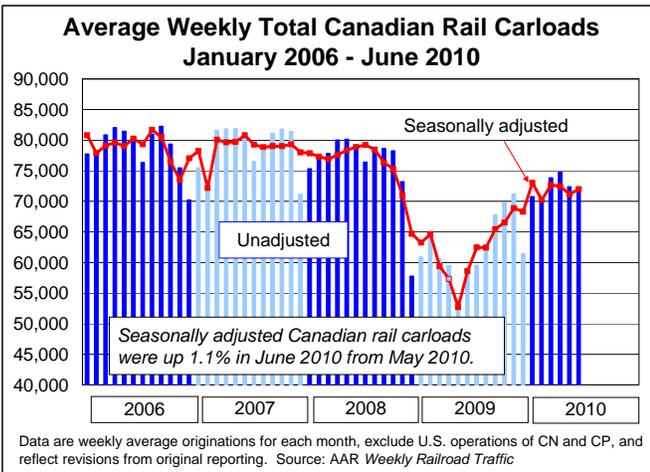
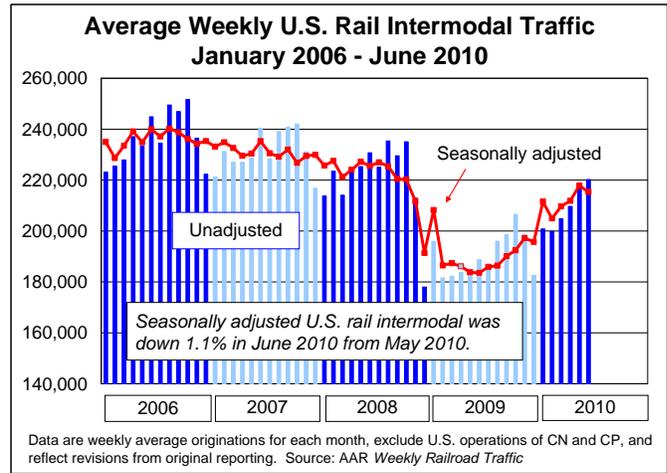
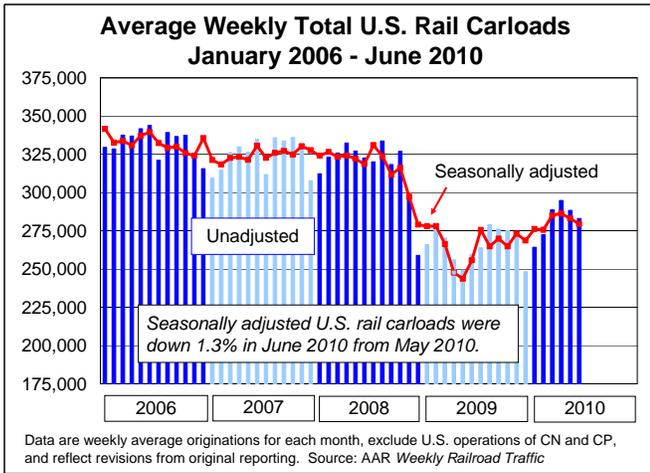
**LUMBER AND WOOD PRODUCTS + PRIMARY FOREST PRODUCTS**



**PULP AND PAPER PRODUCTS**



**SEASONALLY ADJUSTED RAIL TRAFFIC**



**Where to go for more information:**

- Weekly AAR press releases on railroad traffic are available on the AAR web site [here](#).

## GROSS DOMESTIC PRODUCT (GDP)

### Who releases it and when?

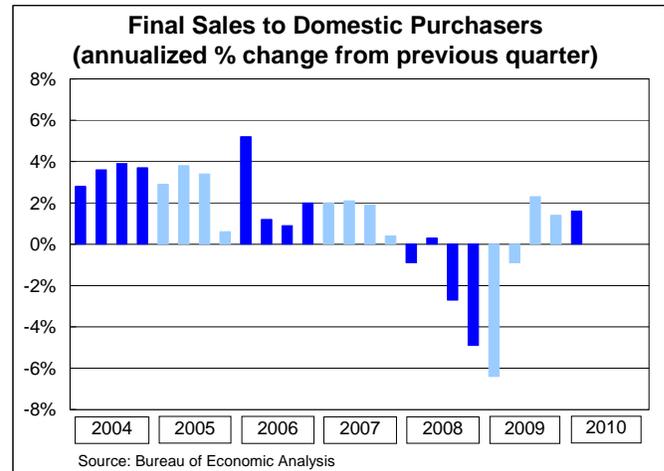
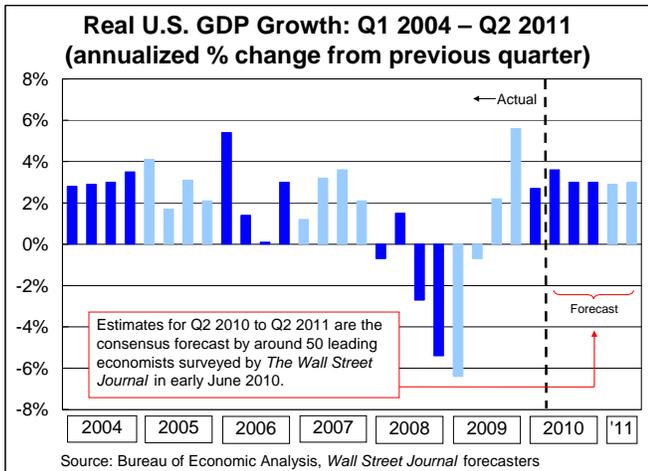
- U.S. Bureau of Economic Analysis (BEA), measured quarterly and revised several times as better data become available.

### What is it and why is it important?

- GDP (the output of goods and services produced by labor and property located in a country) measures the size of an economy and how fast it's growing. Assuming it's measured accurately, it's probably the single most conclusive piece of information on the health of an economy.
- The GDP figure that gets all the press is the annualized percentage change in inflation-adjusted GDP from one quarter to the next — *i.e.*, take the percentage change in real GDP from one quarter to the next and multiply by four.
- In the United States, GDP and freight rail traffic have historically been closely correlated (see chart on next page and discussion below).

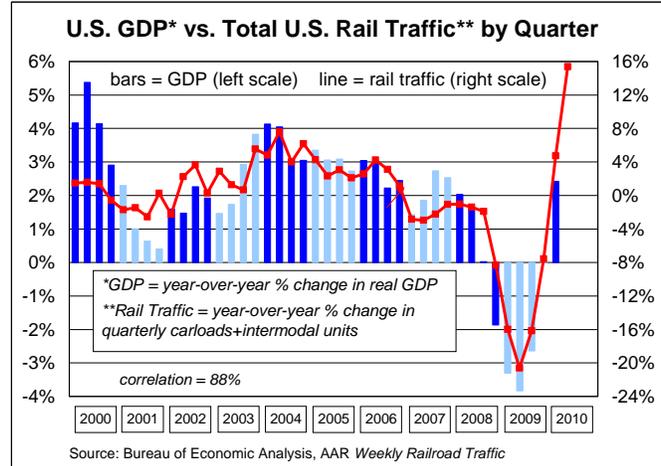
### What are the latest numbers?

- U.S. GDP grew at an annualized rate of 2.7% in Q1 2010 over Q4 2009 according to the BEA's "third estimate" released on June 25. (The first estimate, released April 30, was 3.2%; the next estimate, released May 27, was 3.0%.)
- As noted in the March 2010 *Rail Time Indicators*, some economists think that "final sales to domestic purchasers" (a subset of GDP that excludes inventory and trade) is a better gauge of U.S. economic activity than overall GDP. This measure, which tracks how much U.S. residents spend, rose an uninspiring 1.6% in Q1 2010, following an even less impressive 1.4% increase in Q4 2009 (see chart below right).



- In last month's *Rail Time Indicators* we included a chart (repeated with a few modifications on the top of the next page) showing the positive correlation since 2000 by quarter between year-over-year rail traffic and year-over-year U.S. GDP. The correlation between the two from Q1 2000 through Q1 2010 is 88%. That's not a perfect 100%, but it is very strong, and our guess is that this correlation is stronger than the typical correlation between GDP growth and other individual economic indicators. Plus, rail traffic data are more timely than most other economic indicators. (If you know of a specific economic indicator that has a stronger correlation to GDP than 88% since 2000 and is as timely or nearly as timely as rail traffic, let us know and we'll mention it in future *Rail Time Indicators*.)

- As of this writing, we don't know what Q2 2010 GDP will be, but we do know Q2 rail traffic. The chart at right shows that in Q2 2010, U.S. rail traffic (defined as carloads plus intermodal trailers and containers) was 15.4% higher than in Q2 2009. If the 88% correlation that held from Q1 2000 to Q1 2010 held for another quarter, Q2 2010 GDP would be 5.0% higher than Q2 2009 GDP, which translates to 9.3% higher than Q1 2010 GDP. (Remember, the GDP number you read about in the paper is the annualized change in GDP from one quarter to the next, not year-over-year.)



- If the BEA announced on July 30 (when preliminary Q2 2010 GDP numbers will be released) that U.S. GDP grew 9.3% in the Q2 2010, nobody would believe it. Still, there's a reason why a well known investor from Omaha has said that, if he were stranded on a desert island and could only have access to a few economic indicators, rail freight data would be one of them. As the chart above shows, when railroads are doing well, the economy probably is too, and vice-versa.

- An excellent story a few weeks ago from Bloomberg (see [here](#)) examined the relationship between GDP growth and rail carloads of various individual commodities. Bloomberg's analysis found that **waste and scrap** had the highest correlation with economic growth among the various commodities.

- Intuitively that makes sense. Waste and scrap consists mainly of scrap iron, municipal and demolition waste, and scrap paper. Scrap iron is used to make steel, an input for a huge variety of products (cars, appliances, machine tools, etc.) that people are more likely to buy when the economy is healthy. Likewise, municipal waste and demolition material and debris are produced when people throw things out or build or rebuild something, which is also more likely to happen when the economy is growing.

- Using a slightly different methodology and a more refined data set, we found that **petroleum products** actually has a slightly higher correlation with GDP (correlation = 82% from Q1 2000 through Q1 2010) than waste and scrap (correlation = 79%). Petroleum products consists largely of liquefied petroleum gases, asphalt, various lubricating and other oils, propane, and various related products.

- The table on the right shows the correlation between GDP and various rail commodities since 2000. Note that **no single commodity has a stronger correlation to GDP than rail traffic as a whole.**

Commodity	Correlation
Grain	56%
Farm products excl. grain	43%
Metallic ores	62%
Coal	42%
Crushed stone, gravel, sand	74%
Nonmetallic minerals	42%
Grain mill products	41%
Food products	67%
Primary forest products	71%
Lumber & wood products	74%
Pulp & paper products	76%
Chemicals	65%
Petroleum products	82%
Stone, clay, & glass prod.	79%
Coke	61%
Primary metal products	77%
Motor vehicles & parts	74%
Waste & scrap materials	79%
Total carloads	87%
Total intermodal	82%
Total cars + intermodal	88%

Source: AAR Weekly Railroad Traffic, BEA

**Where to go for more information:**

- The most recent BEA news release on GDP, including links to detailed data tables, is [here](#). BEA will release its first estimate of Q2 2010 GDP on July 30.

## PURCHASING MANAGERS INDEX (PMI)

### Who releases it and when?

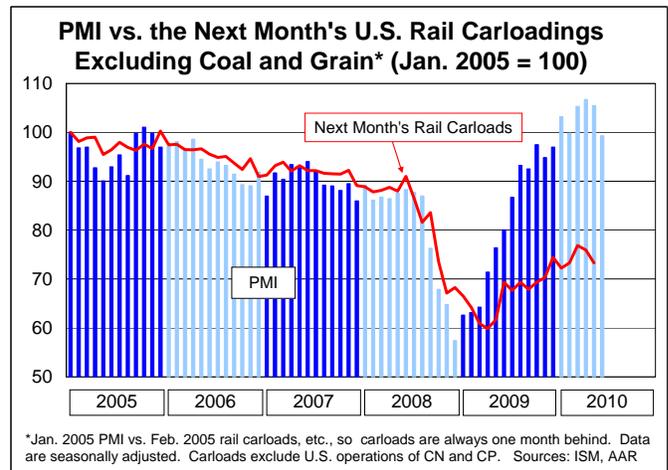
- Institute for Supply Management (ISM – formerly the National Association of Purchasing Managers), near the beginning of each month.

### What is it and why is it important?

- The PMI combines data on new orders, inventory, production, supplier deliveries, and employment. It's based on a survey of several hundred supply managers at manufacturers throughout the country. Supply managers typically handle purchasing/procurement, inventory control and management, and physical distribution and warehousing. The PMI is considered an indicator both of actual "on-the-ground" conditions as well as near- to medium-term sentiment.
- Manufacturing accounts for approximately 12% of U.S. GDP — not as much as it used to be, but the U.S. is still the world's top manufacturer. In fact, by itself, U.S. manufacturing would still be around the eighth largest economy in the world. And, of course, much of what railroads haul consists of raw materials for manufacturing or finished manufactured goods.
- According to the ISM, a **PMI > 50 indicates that overall manufacturing is expanding**; a PMI < 50 indicates that manufacturing is contracting. Also according to the ISM, a **PMI greater than 41.2**, over time, generally indicates an **expansion of the overall economy**.

### What are the latest numbers?

- PMI **retreated to 56.2 in June 2010 from 59.7 in May 2010**, the biggest decline since December 2008. The PMI was 45.3 in June 2009. The **new orders** component of PMI **fell sharply to 58.5 in June 2010 from 65.7 in both May 2010 and April 2010**. It was 49.9 in June 2009.
- What the ISM said about the June PMI: "The lower reading for the PMI came from a slowing in the New Orders and Production Indexes. We are now 11 months into the manufacturing recovery, and given the robust nature of recent growth, it is not surprising that we would see a slower rate of growth at this time. The sector appears to be solidly entrenched in the recovery. Comments from the respondents remain generally positive, but expectations have been that the second half of the year will not be as strong in terms of the rate of growth, and June appears to validate that forecast."



### Where to go for more information:

- The press release and much more information regarding the June PMI are [here](#). The July PMI will be released on August 2, 2010.

## MANUFACTURING INVENTORIES AND SALES

### Who releases it and when?

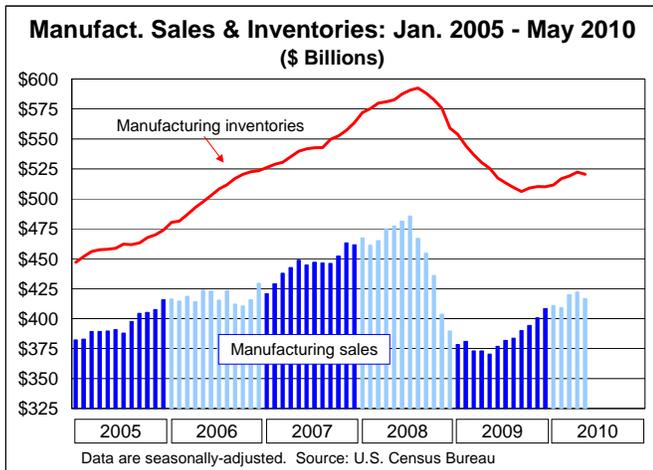
- The U.S. Census Bureau, near the beginning of each month, covering the month two months prior. (E.g., the report released in early July has data covering May.)

### What is it and why is it important?

- The report is based on data reported from manufacturing establishments with \$500 million or more in annual shipments covering 89 industry categories. Figures are seasonally adjusted.
- Manufacturers **don't want to hold too much inventory** because it costs money to store it and it can become obsolete or spoil. Moreover, inventory earns no return on investment. But manufacturers **don't want too little inventory either**, or they could lose sales. Like Goldilocks, they want an inventory level that's "just right."
- When sales fall, inventories must rise if production is kept at the same pace. Eventually, **when inventories are too high, "destocking" occurs** via production cuts. This leads to job losses, fewer raw material purchases, and other negative economy-wide effects.
- When sales rise, either inventories must fall, production must increase, or both. Eventually, inventories becomes too low and **"restocking"** occurs via production increases. This means more employment, more raw material purchases, and other positive economy-wide effects.

### What are the latest numbers?

- **Manufacturing sales fell 1.3% in May 2010** from April 2010 while **manufacturing inventories fell 0.4%** (see chart below left). The resulting **inventory-sales ratio for manufacturing rose 0.9%** in May 2010 to 1.25 (see chart below right).



- As of May, there's still a pretty large gap between the manufacturing inventory-sales ratio and rail carloadings. (See the chart on the top of the next page. For this chart we use "carloads excluding coal" because it results in a stronger correlation than "total carloads" or "total carloads plus intermodal units".) It remains to be seen if this represents a "new normal" or if, in time, the gap will disappear. For the gap to go away, rail carloads have to increase, manufacturing sales have to increase, manufacturing inventories have to fall, or some combination thereof.

### Where to go for more information:

- The Census Bureau's full report on manufacturing sales and inventories in May is [here](#). Figures for June 2010 will be released on August 3, 2010.

## INDUSTRIAL PRODUCTION

### Who releases it and when?

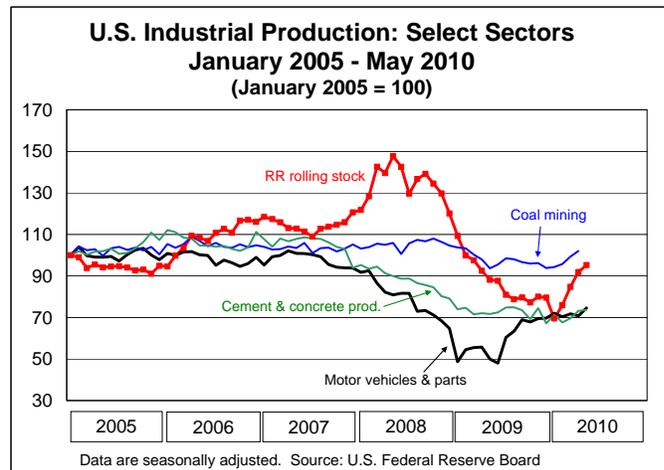
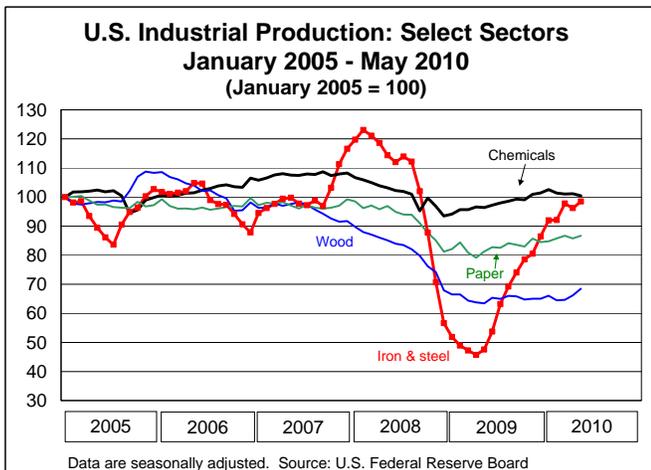
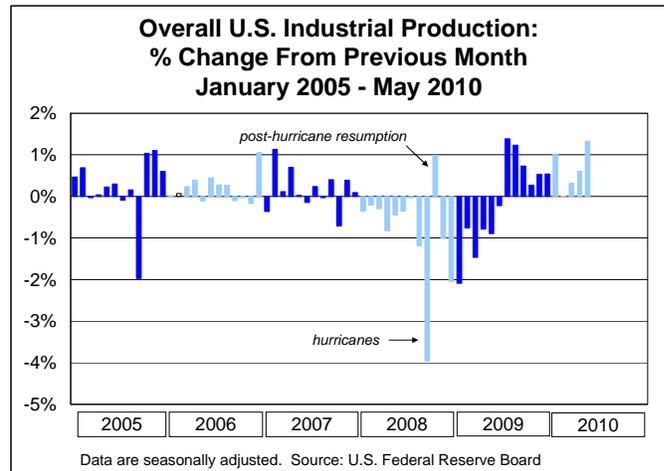
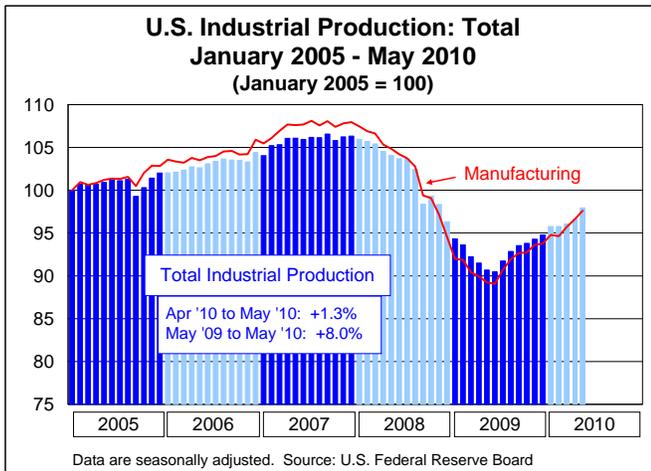
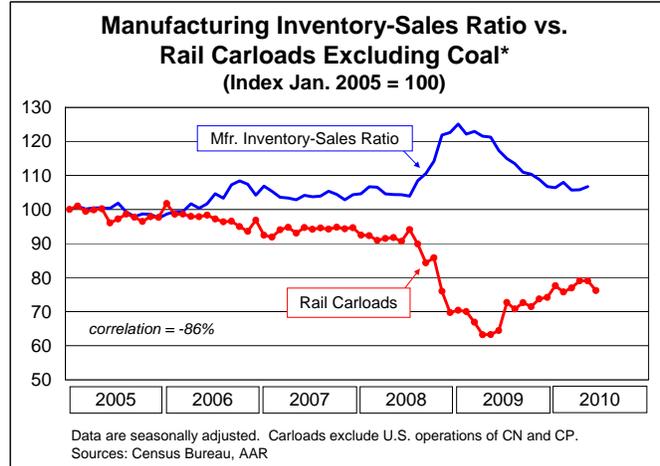
- The U.S. Federal Reserve Board, around the middle of each month.

### What is it and why is it important?

- Industrial production figures are based on the monthly raw volume of goods produced by U.S. industrial firms such as factories, mines, and electric utilities. The industrial sector generally exhibits the most volatility in output during a business cycle.

### What are the latest numbers?

- Total industrial production rose 1.3% in May 2010**, the 11th straight monthly increase and the largest since July 2009. The manufacturing component of industrial production rose 1.0% in May, the third straight monthly increase and tenth increase in the past 11 months. (Note: the Federal Reserve recently substantially revised its historical industrial production data. The charts below reflect the revisions.) Industrial production in June 2010 was **8% higher than in June 2009**.



- The bottom two charts on the previous page show the widely varying performance of various industrial sectors. Clearly, the iron and steel sector is not for the faint of heart. In comparison, the chemical industry has been the model of stability.

**Where to go for more information:**

- The Federal Reserve release on industrial production in May is [here](#), though data therein don't match what's above because of revisions issued by the Federal Reserve since the release was issued. June 2010 data will be released on July 15, 2010.

**CAPACITY UTILIZATION**

**Who releases it and when?**

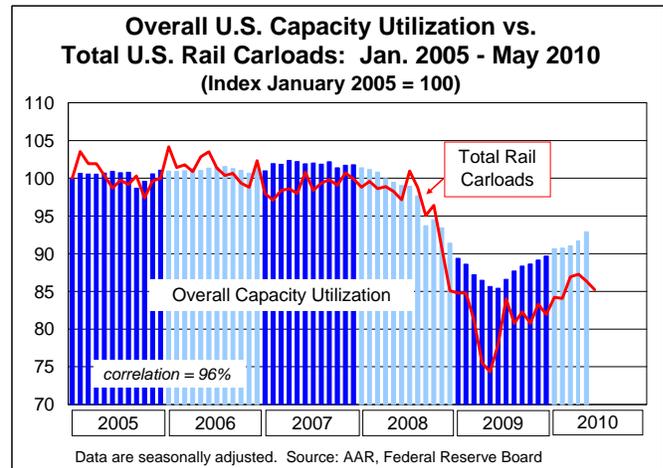
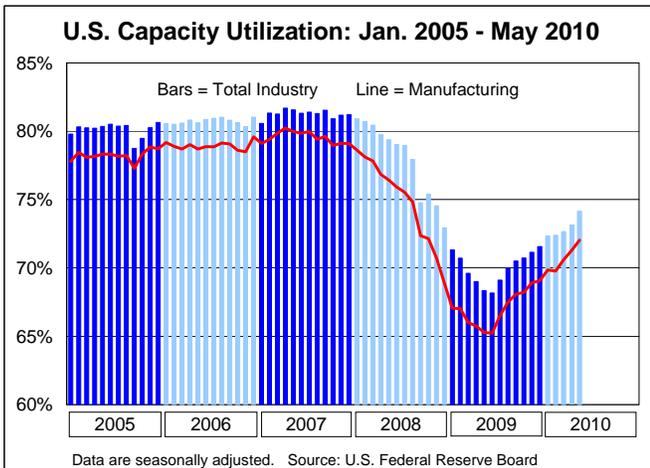
- The U.S. Federal Reserve Board, around the middle of each month.

**What is it and why is it important?**

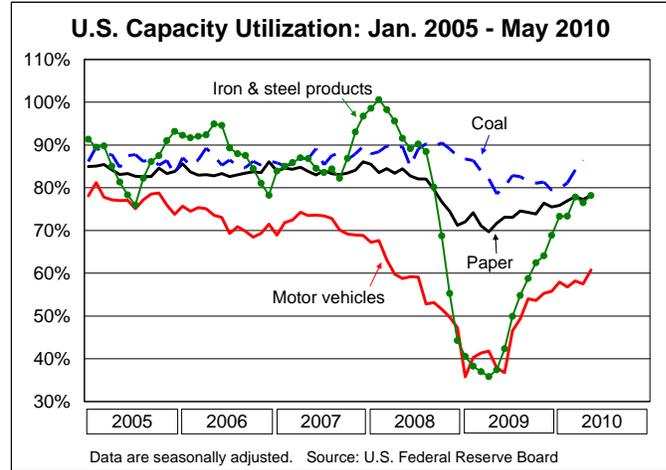
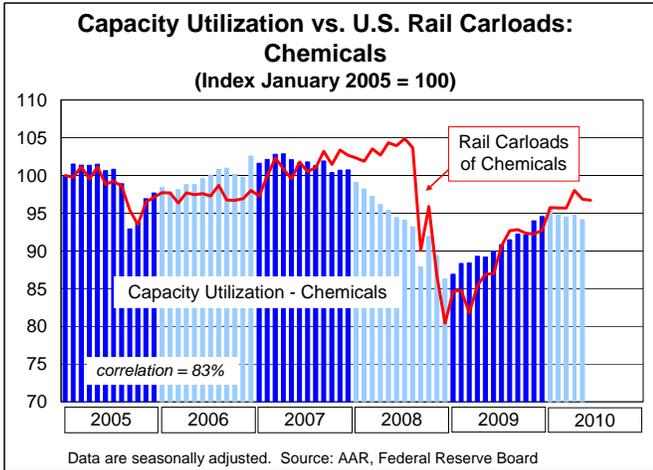
- Capacity utilization attempts to capture the concept of sustainable maximum output — *i.e.*, the highest output a plant can maintain assuming a realistic work schedule, normal downtime, and sufficient availability of inputs to operate the capital in place.
- In theory, a capacity utilization rate of, say, 70% means there is room to increase production up to 100% without having to build new plants or add equipment. In practice, capacity utilization rates (at least on an economy-wide basis) never come close to 100%. Utilization levels above 82%-85% are generally considered "tight" and portend price increases or supply shortages in the near future. The farther below this level, the more slack there is in the economy or particular sector.
- Firms in every industry (including railroads) walk a tightrope when it comes to capacity. If they take too long to bring back idled capacity or build new capacity, they risk shortages and lost sales opportunities. Or, they could face higher costs in other areas (e.g., higher overtime costs). On the other hand, adding capacity that ends up not being used is also undesirable.

**What are the latest numbers?**

- **Capacity utilization for total industry** (mining, manufacturing, and gas and electric utilities) **rose to 74.1% in May 2010**, up from 73.1% in April 2010 and the 11th straight monthly increase. It was 68.3% in May 2009. (Note: the Federal Reserve recently substantially revised its historical data on capacity utilization. The charts below reflect the revisions.)
- **Capacity utilization for manufacturing rose to 72.0% in May 2010** from 71.3% in April 2010. Over the past 11 months, it has fallen just once.



- The chart on the bottom right of the previous page shows the close positive correlation between capacity utilization and rail carloads. If past results are any guide (sometimes they aren't), when capacity utilization numbers for June 2010 come out on July 15 (a few days too late for this edition of *Rail Time Indicators*), they could very well show a decline from May 2010.



**Where to go for more information:**

- The Federal Reserve release on capacity utilization in May is [here](#), though data therein don't match what's above because of revisions issued by the Federal Reserve since the release was issued. June 2010 data will be released on July 15, 2010.

**NUMBER OF EMPLOYED PERSONS AND UNEMPLOYMENT RATE**

**Who releases it and when?**

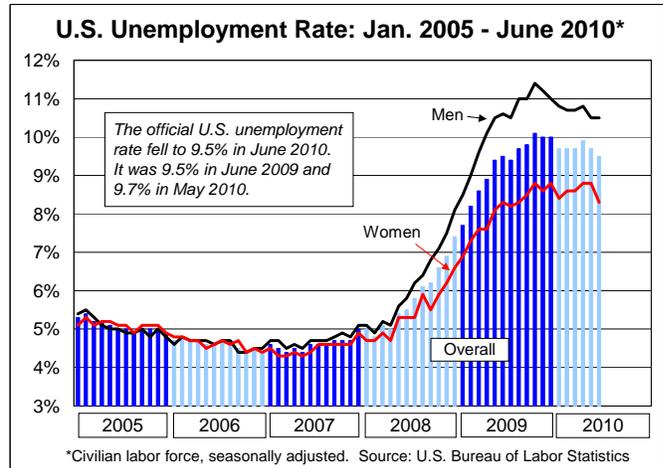
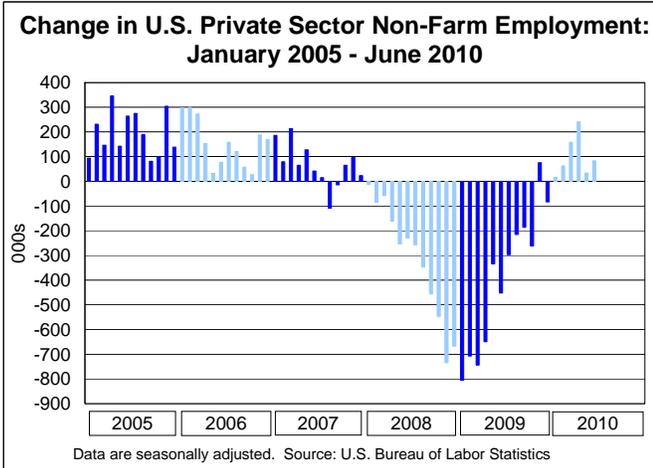
- U.S. Bureau of Labor Statistics (BLS) near the beginning of each month.

**What is it and why is it important?**

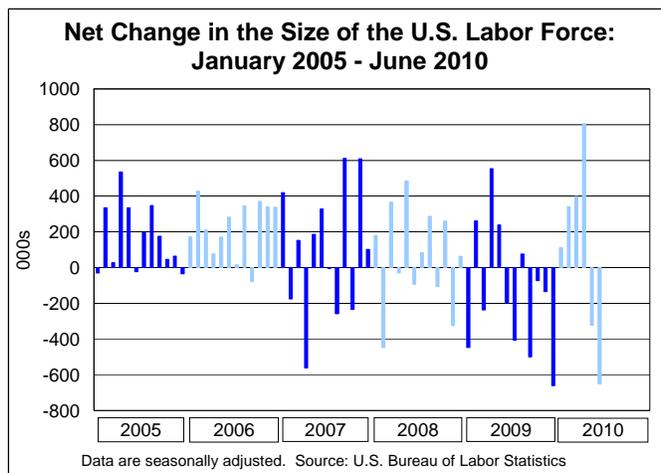
- The figures provide a snapshot of the strength of the U.S. labor market and are based on surveys of tens of thousands of households and businesses. In the United States, **a gain of 150,000 or more jobs** from one month to the next is **generally considered solid job growth**. Historically, 125,000-150,000 has also been approximately what's necessary to keep up with the growth in the labor force from one month to the next.
- Employment is often considered a lagging indicator because employers often decide to wait until they're sure an economic recovery is here to stay before making new permanent hires. In the meantime, they might rely on more hours for working existing workers or on temporary workers. Weak job numbers cause even the still-employed to become less confident of the future, and, therefore, less prone to spend money (see "Consumer Confidence" and "Retail Sales" below).

**What are the latest numbers?**

- June brought more mixed (at best) news on the employment front. Total net U.S. **non-farm employment fell by 125,000 in June 2010**, the first monthly decline in 2010. This overall decline in June reflects a 225,000 reduction in Census-related government employees and an 83,000 increase in private sector employment.



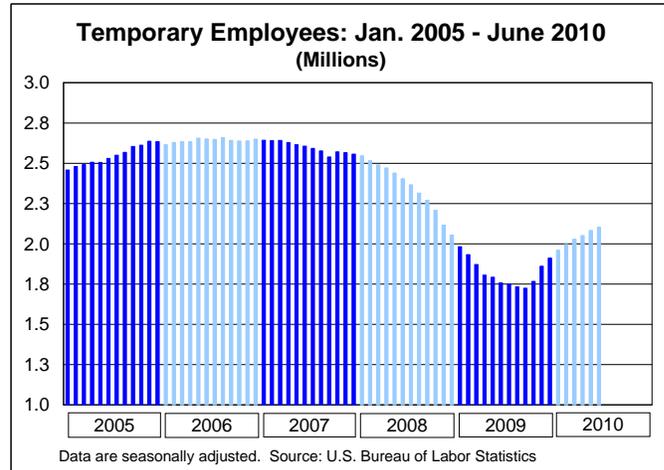
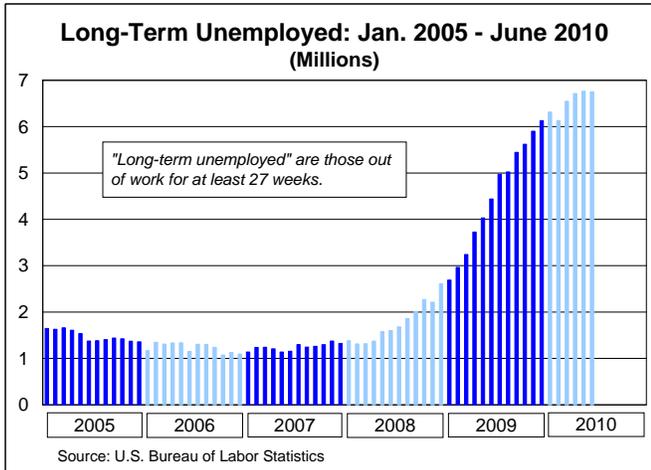
- The 83,000 gain marked the sixth straight monthly increase in private sector employment and is a far cry from 2008 and 2009, when private sector employment fell in 23 out of 24 months (see chart top left). Still, 83,000 was less than what most analysts expected and not much better than April. It caused many to rethink their views regarding the strength of the economic recovery. Until monthly private sector job growth is double or triple what it was in June, talk of a solid, self-sustaining recovery should probably be considered premature.
- Included in June's 83,000 new private sector jobs were 8,000 new manufacturing and health care jobs, 21,000 temp jobs, and 37,000 leisure and hospitality jobs. Construction jobs fell by 22,000.
- The official **unemployment rate fell to 9.5% in June 2010 from 9.7% in May 2010 and 9.9% in April 2010**, but that shouldn't impress anybody. The unemployment rate, by definition, is the number of unemployed (the numerator) divided by the labor force (the denominator). Thus, the size of the labor force heavily influences the unemployment rate — everything else equal, if the labor force goes up, the unemployment rate goes up; if it falls, the unemployment rate falls too. In June 2010, **the labor force fell by 652,000**.
- 83.9 million people (aged 16 and over) were not considered part of the labor force in June 2010. That's the highest such figure ever. 153.7 million people were part of the labor force in June 2010, down from a peak of 155.0 million in May 2009.
- The official size of the labor force swings wildly from one month to the next. For example, the labor force grew by nearly 800,000 in April 2010, then fell by nearly a million over the next two months (see chart at right). It makes you wonder how much of the volatility is real and how much is statistical noise.
- Other factoids from the June employment situation report:



- ✓ The number of officially **"discouraged" workers** (persons not currently looking for work because they believe no jobs are available for them) **rose to 1.2 million in June 2010, the highest total ever.**
- ✓ The average weekly hours for production and non-supervisory workers remained at **33.4 in June, the same as in April and May.** Average weekly hours in goods producing

industries fell to 40.2 in June 2010 from 40.5 in May 2010 and April 2010. Average **overtime hours for manufacturing workers fell for the first time in four months** and for only the second time since March 2009.

- ✓ The number of long-term unemployed (27 weeks or more) fell fractionally to 6.75 million in June but set a new record at 46.2% of total unemployed. It was 30.2% in June 2009 and 18.7% in June 2008 (see chart below left).
- ✓ The number of temporary workers rose for the ninth straight month (see chart below right). Employers often rely on temps until they're sure that hiring additional permanent employees is warranted.



- The key question is why firms aren't hiring more. Perhaps the best one-word reason is "uncertainty" — uncertainty regarding the current and future state of the economy here and abroad, and uncertainty regarding the impact of recent and future regulation and legislation regarding taxes, health care, financial services, climate change, and more.

**Where to go for more information:**

- The BLS press release on the employment situation in June 2010 is [here](#). Data for July 2010 will be released on August 6, 2010.

**CLASS I FREIGHT RAILROAD EMPLOYMENT**

**Who releases it and when?**

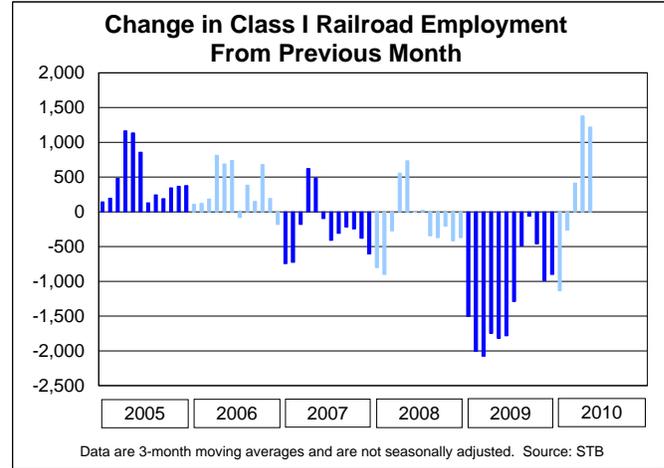
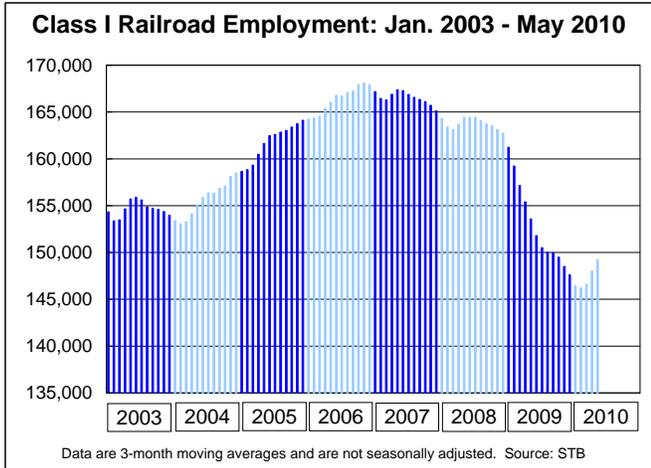
- Surface Transportation Board (STB), around the middle of the month.

**What is it and why is it important?**

- Report showing the average number of Class I employees at mid-month. These numbers are not seasonally adjusted. As in other industries, employment in the rail industry is in large part a function of the level of business — *i.e.*, how much freight is being hauled.

**What are the latest numbers?**

- Class I freight railroad employment **rose to 149,967 in May 2010**, up 218 employees from April 2010. The increase was entirely due to an increase in the number of maintenance of way and structures employees. (These are employees — such as bridge building employees, signalmen, members of track gangs, and roadway machine operators — who keep tracks and rail rights-of-way in good condition.)



**Where to go for more information:**

- The STB web site for railroad employment data is [here](#).

**CONSUMER CONFIDENCE**

**Who releases it and when?**

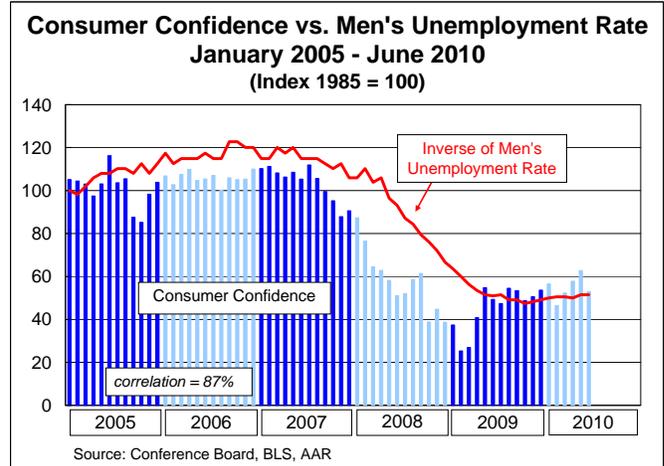
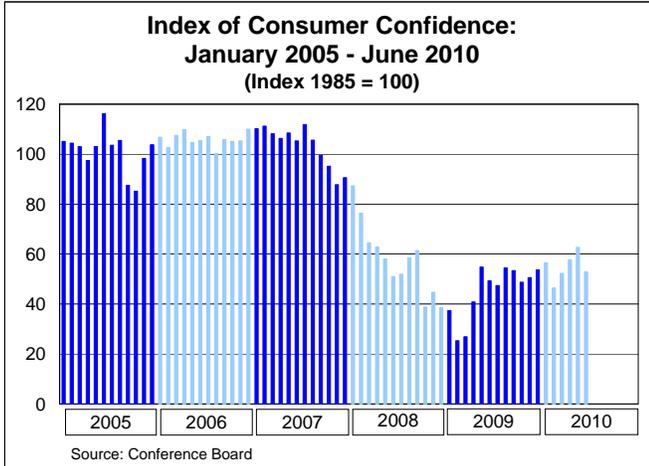
- The Conference Board on the last Tuesday of the month.

**What is it and why is it important?**

- The index is based on a monthly survey of 5,000 U.S. households. It is designed to gauge the financial health, spending power, and confidence of the average U.S. consumer. Respondents are asked about current conditions ("Present Situation Index") and their expectations for the next six months ("Expectations Index").
- The index is designed to predict future consumer spending, on the theory that the more confident consumers are about their job prospects, income, etc. the more likely they are to make purchases, especially big-ticket items.

**What are the latest numbers?**

- The consumer confidence index **fell sharply to 52.9 in June 2010 from 62.7 in May 2010** (see chart on the top of the next page), the first decline after three straight monthly gains.
- Respondents who believe current conditions are "good" fell to 8.0% in June from 9.7% in May; those claiming current conditions are "bad" rose to 42.4% in June from 39.5% in May.
- What the Conference Board said regarding the June index: "Increasing uncertainty and apprehension about the future state of the economy and labor market, no doubt a result of the recent slowdown in job growth, are the primary reasons for the sharp reversal in confidence. Until the pace of job growth picks up, consumer confidence is not likely to pick up."
- Readers of *Rail Time Indicators* know that what the Conference Board statement above implies is true: there is a strong statistical correlation between consumer confidence and the employment situation. A chart in the March 2010 *Rail Time Indicators* showed the correlation between consumer confidence and the overall unemployment rate. The chart on the top right of the next page is similar, except that it uses the unemployment rate for men only. The correlation between consumer confidence and unemployment is slightly stronger when the men's unemployment rate is used rather than the overall unemployment rate.



- Unfortunately, it would shock just about everyone if the unemployment rate fell sharply any time soon. In its June 2010 survey, *The Wall Street Journal* panel of economists predicted the unemployment rate would still be 9.4% in December 2010 and 8.6% in December 2011.

**Where to go for more information:**

- The Conference Board's press release on the consumer confidence index in June is [here](#). July's consumer confidence index will be released on July 27.

**RETAIL SALES**

**Who releases it and when?**

- The U.S. Census Bureau, around the ninth business day of each month.

**What is it and why is it important?**

- The Census Bureau surveys 5,000 retailers of all types to track the dollar value of physical merchandise sold. The data are adjusted for holiday differences and seasonal variations but are not adjusted for inflation. (The "personal consumption expenditures" component of GDP is adjusted for inflation, but is much less timely than retail sales.) Revisions to prior months' retail sales data can be large.
- Personal consumption accounts for approximately 70% of U.S. GDP. Thus, the health of the economy depends largely on how much "stuff" people buy.
- It often takes time for consumers to recover from and respond to economic events. Thus, an increase in spending today may reflect the results of an economy that began to recover a few months earlier. A decrease in spending today may confirm an ongoing or worsening recession.

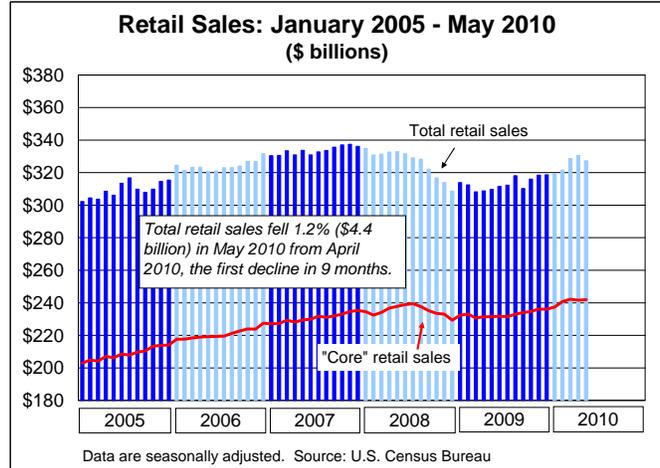
**What are the latest numbers?**

- Total **retail sales fell 1.2% (\$4.4 billion) in May 2010 from April 2010**, the first monthly decline since September 2009 (see chart below left).
- Declines in May retail sales were spread across various retail segments, including motor vehicles and parts (down \$1.1 billion, or 1.7%), building materials and supplies (down \$2.4 billion, or 9.3%), gasoline stations (down \$1.2 billion, or 3.3%) and general merchandise (down \$579 million, or 1.1%).
- "Core" retail sales — retail sales excluding autos, gasoline, and building materials — rose 0.1% in May 2010, following a 0.2% decline in April 2010.

- Why the decline in retail sales? Probably because of a number of factors, including high unemployment; lack of confidence even among those who are still employed; the undesirability among many to take on more debt; and the desirability among many to “save for a rainy day.”

**Where to go for more information:**

- The Census Bureau’s press release on May retail sales is [here](#). May retail sales will be released on July 14, 2010.



**LIGHT VEHICLE SALES**

**Who releases it and when?**

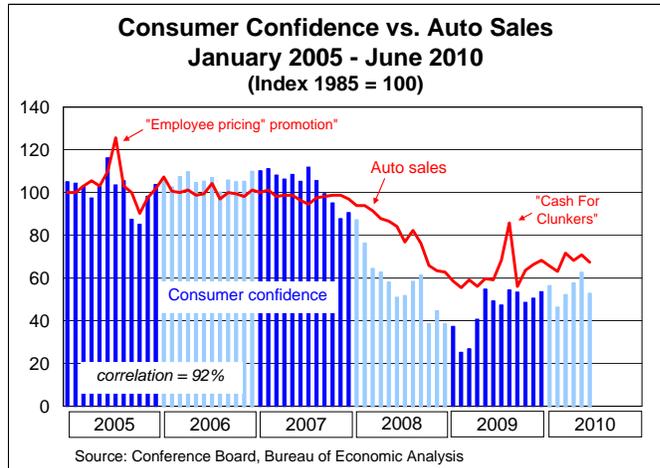
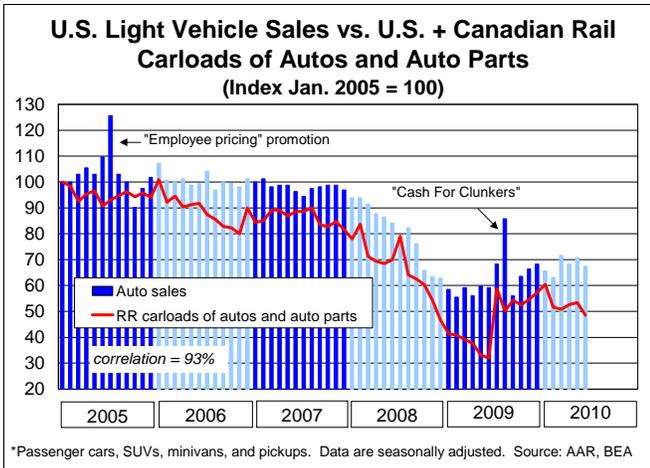
- The U.S. Bureau of Economic Analysis.

**What is it and why is it important?**

- Covers U.S. sales of cars and light trucks, including pickups and SUVs. Over the past 50 years, spending on motor vehicles has accounted, on average, for about 3.7% of U.S. GDP. Monthly auto sales are often referred to in terms of seasonally-adjusted annualized rates (SAAR). In 2009, 6% of U.S. Class I railroad revenue came from hauling autos and auto parts.

**What are the latest numbers?**

- U.S. light vehicle sales in June 2010 were a seasonally-adjusted annualized rate of 11.1 million. That’s **up 14.0% from June 2009**, which sounds pretty good until you realize that June 2009 was the second worst June for auto sales since 1976. (The worst was June 1982.) At 11.1 million, June 2010 was the fourth-worst June for auto sales since 1976 and **5% lower than May 2010**.



- As the chart above right shows, there is a very strong positive correlation between auto sales and the Conference Board’s consumer confidence index (see page 25 ). Since consumer confidence is closely linked to the employment situation (see page 22), it seems likely that auto sales will remain stuck at low levels until the employment situation markedly improves. That may not happen any time soon.

- And that means that rail auto traffic will probably continue to suffer as well, since there is a very close positive correlation between auto sales and rail auto-related traffic (see chart on bottom left of the previous page).

**Where to go for more information:**

- BEA data on auto sales are [here](#).

**HOUSING STARTS**

**Who releases it and when?**

- U.S. Census Bureau, around the middle of each month.

**What is it and why is it important?**

- A housing start is beginning the foundation of a residential home. Housing directly accounts for around 5% of the overall economy and has large spillover effects on other sectors, such as retail sales and manufacturing, since people buying new homes tend to spend on other goods such as furniture, lawn and garden supplies, and appliances.
- Housing starts are generally considered to be a “leading indicator” because construction growth usually picks up at the beginning of a business cycle. Various factors affecting today’s housing market, including a huge oversupply of existing houses, might mean that new construction is a lagging indicator this time around.

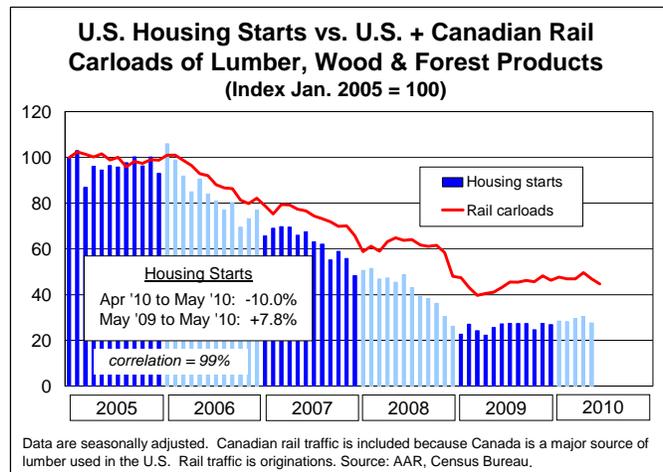
**What are the latest numbers?**

- Housing starts went from bad to worse in May 2010, **falling 10%** from an annualized and seasonally-adjusted 659,000 in April 2010 **to 593,000 in May 2010**. That’s the lowest of any month so far in 2010. Housing starts for single family homes fell even more — 17% — in May 2010, dropping to their lowest level since May 2009. (Since 2005, almost 80% of housing starts have been for single-family homes.)

- The sharp decline in housing starts in May follows the expiration of tax credits worth up to \$8,000 for home buyers. To be eligible for the credit, contracts had to be signed by April 30.

- At least since January 2005, housing starts and U.S. and Canadian rail carloads of lumber, wood, and forest products have moved in virtual lockstep. Past results are no guarantee of future results, but since rail carloads of these products fell 4.9% in June 2010, it seems highly unlikely that June’s housing starts (data for which will be released on July 20) will be much better than they were in May.

- It’s unrealistic to think that housing starts will return any time soon to anything close to the 2.1 to 2.2 million range where they were in 2005 and early 2006. That means it will probably be a long time before the housing sector again contributes in a significant way to economic growth — just another factor standing in the way of sustained economic recovery.



**Where to go for more information:**

- The Census Bureau's press release on housing starts in May is [here](#). June's housing starts will be released on July 20, 2010.

**CONSUMER PRICE INDEX (CPI)**

**Who releases it and when?**

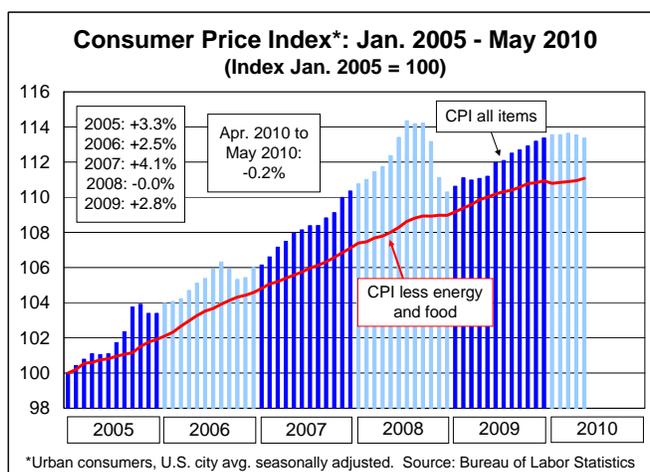
- U.S. Bureau of Labor Statistics (BLS), mid-month.

**What is it and why is it important?**

- The CPI is the benchmark inflation guide for the U.S. economy. It measures the changes in the cost of a representative basket of consumer goods and services. The BLS collects prices from more than 20,000 retail and service establishments throughout the country.
- It's hard not to have at least a little inflation when an economy is growing, but inflation can harm economies in many ways. Just one example: inflation confuses price signals — producers don't know if higher prices are simply part of an inflation-related adjustment or if they signal higher demand that warrants expanded production.
- The CPI is the basis for cost-of-living adjustments for Social Security, federal retirement payments, many private pensions, and food stamps.

**What are the latest numbers?**

- **The consumer price index** for all urban consumers (CPI-U) **fell 0.2%** on a seasonally adjusted basis in May 2010 from April 2010, the second straight monthly decline. As of May, it was **up 2.0%** on a **year-over-year basis** before seasonal adjustment. The decline in the CPI in May was largely due to lower energy prices. The price of gasoline fell 5.2 percent in May, the largest monthly decline since December 2008.
- "Core" inflation — CPI less food and energy — was up 0.1% in May 2010 over April 2010 and up 0.9% year-over-year.
- Why is inflation so low? With high unemployment and still weak consumer confidence, many consumers aren't in a free-spending mood (see retail sales, page 26) and have a "get more for less" mindset that resists efforts to get them to pay more for things. Plus, there's still a lot of slack capacity at factories (see capacity utilization, page 21) and in the workforce.
- The fact that consumer inflation is so low supports the view that the recovery is, at best, moderate. There's little risk that the economy will overheat in the near term, and therefore probably little reason to expect the Federal Reserve to raise interest rates from their current very low level to combat inflationary pressures.



**Where to go for more information:**

- The BLS press release on the May 2010 CPI is [here](#). June's CPI will be released on July 16.

## U.S. DOLLAR EXCHANGE RATE INDEX

### Who releases it and when?

- The Federal Reserve Board, daily.

### What is it and why is it important?

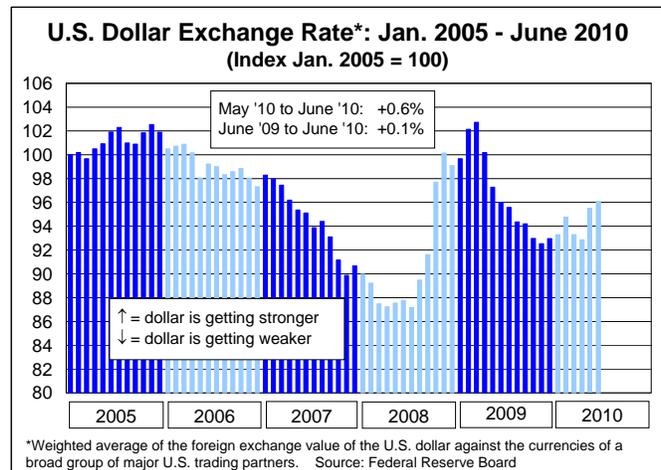
- An index comprised of a weighted average of the value of the U.S. dollar against the currencies of a group of major U.S. trading partners.
- An exchange rate is the **price of one currency against another**. A weaker U.S. dollar (“depreciation”) means that U.S. imports become relatively more expensive and U.S. exports become relatively less expensive abroad. All else equal, that means fewer U.S. imports and more U.S. exports.<sup>1</sup> Because the U.S. is such a huge market, prolonged weakness in the dollar’s value could harm the economies of export-driven countries around the world.
- Conversely, a stronger dollar (“appreciation”) means U.S. imports become relatively cheaper and U.S. exports become more expensive abroad. All else equal, that means more U.S. imports and fewer U.S. exports.

### What are the latest numbers?

- The U.S. dollar **rose 0.6% in June 2010** to its highest level since May 2009. A persistent higher-valued dollar could complicate the administration’s efforts to double U.S. exports over the next few years.

### Where to go for more information:

- Exchange rate data from the Federal Reserve is [here](#).



## RAIL FREIGHT CARS IN STORAGE

### Who releases it and when?

- The Association of American Railroads, each month in *Rail Time Indicators*.

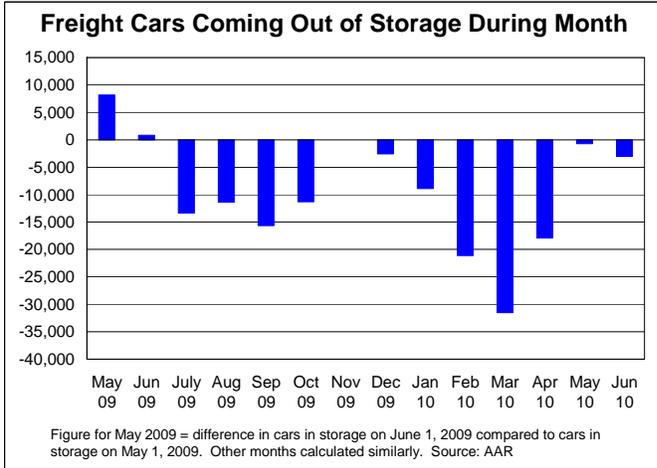
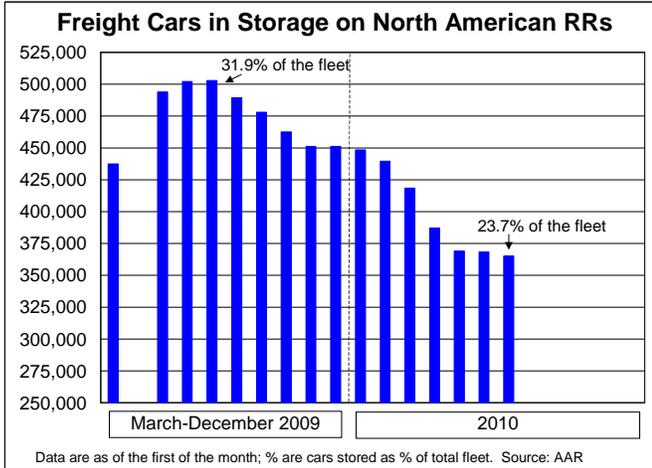
### What is it and why is it important?

- A freight car is deemed to be “in storage” if it has not had a loaded revenue move in more than 60 days. Rail cars are stored when they are not needed due to lack of demand; they come out of storage when demand improves. Figures are for the entire North American rail freight car fleet and include rail cars owned by railroads, leasing companies, shippers, and others. The total freight car fleet changes from month to month as new cars are added and old cars are scrapped. Data prior to March 2009 are not available.
- Our best estimate is that, when the economy and the rail industry are at their healthiest, around 2% or 3% of freight cars are in storage.

<sup>1</sup> For example, suppose a U.S. milling company wants to export to Germany a quantity of soybean meal that costs \$300 in the United States. At \$1.50 per euro, the soybean meal costs 150 euros (\$300 /1.5 euros per \$) in Germany. If the dollar gets stronger so that one euro falls to, say, \$1.20, the cost of the soybean meal to a German customer rises to 250 euros (\$300/1.2). If the dollar gets weaker so that one euro is, say, \$1.80, the cost of the soybean meal in Germany falls to 167 euros (\$300/1.8).

**What are the latest numbers?**

- As of July 1, 2010, **365,279 freight cars — 23.7% of the fleet — were in storage.** That's down 3,064 cars from June 1, 2010. Cars in storage have declined for 12 straight months, totaling more than 137,000 cars out since that time.



**Where to go for more information:**

- Contact Frank Hardesty of the AAR's Policy and Economics Department at 202-639-2321 or [fhardesty@aar.org](mailto:fhardesty@aar.org).

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