Rail Time Indicators

A Review of Key Economic Trends
Shaping Demand for Rail Transportation

Policy & Economics Department
Association of American Railroads
Washington, DC

October 11, 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 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.

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Previous editions of *Rail Time Indicators* are available on the AAR web site here.

Rail traffic data in *Rail Time Indicators* are sometimes presented on a seasonally adjusted basis and sometimes on a non-seasonally adjusted basis. Because of inherent imprecision in the adjustment process and the possibility of further refinements, the seasonally adjusted figures should be viewed as a complement to, rather than a replacement for, the unadjusted data.

SUMMARY OF MOST RECENT DATA

Economic Indicator	Most Recent Data
U.S. Freight Rail Traffic (p. 2)	Not Seasonally Adjusted: Carloads in September 2010 ↑ **7.7%** over September 2009, ↓ **7.5%** from September 2008. Weekly average of 297,502 carloads in September 2010 highest since October 2008. Intermodal in September 2010 ↑ **17.3%** over September 2009, ↑ **0.2%** over September 2008. Weekly average of 233,058 intermodal units in September 2010 second highest since October 2008. Seasonally Adjusted: Carloads in September 2010 ↑ **1.9%** from August 2010; intermodal in September 2010 ↓ **0. 1%** from August 2010.
Canadian Freight Rail Traffic (p. 4)	Not Seasonally Adjusted: Carloads in Sept. 2010 ↑ **11.8%** over Sept. 2009, ↓ **3.9%** from September 2008. Intermodal in September 2010 ↑ **16.5%** over September 2009 and ↓ **1.0%** from September 2008. Seasonally Adjusted: Carloads in September 2010 ↓ **0.05% from** August 2010. Intermodal in September 2010 ↓ **1.1%** from August 2010.
Gross Domestic Product (p. 16)	↑ **1.7%** in Q2 2010 according to the most recent estimate released September 30, up from previous estimate of 1.6%.
Purchasing Managers Index (p. 17)	↓ **to 54.4** in September 2010 from 56.3 in August 2010. New orders ↓ **to 51.1** in September 2010 from 53.1 in August 2010, its fourth straight monthly decline.
Manufacturing Inventories and Sales (p. 19)	Manufacturing sales ↓ **0.6%**, manufacturing inventories ↑ **0.1%**, and inventory-to-sales ratio ↑ 0.7% in August 2010 from July 2010.
Industrial Production (p. 20)	↑ **0.2%** in August 2010 over July 2010, down from a 0.6% gain in July.
Capacity Utilization (p. 21)	↑ **to 74.7%** in August 2010 from 74.6% in July 2010. Has risen for 14 straight months, August 2010 highest level since October 2008.
Employment (p. 22)	↓ **95,000** in September 2010 from August 2010; 64,000 new private sector jobs not enough to offset loss of 159,000 government jobs.
Unemployment Rate (p. 22)	**Unchanged at 9.6%** in September 2010 from August 2010.
Class I Railroad Employment (p. 24)	↓ **121** to 152,925 employees in August 2010. Employee counts were recently revised upward to account for employees from acquisitions.
Consumer Confidence (p. 24)	↓ **to 48.5** in September 2010 from 53.2 in August 2010.
Retail Sales (p. 25)	↑ **0.4%** ($1.5 billion) in August 2010 from July 2010.
Light Vehicle Sales (p. 26)	↑ **2.4%** in Sept. 2010 from August 2010 to an annualized 11.7 million.
Housing Starts (p. 27)	↑ **10.5%** in August 2010 to 598,000 from 541,000 in July 2010.
Consumer Price Index (p. 28)	↑ **0.3%** in August 2010 from July 2010; “core” inflation was **flat**.
Exchange Rate Index (p. 28)	↓ **1.0%** in September 2010 (*i.e.*, the dollar got weaker) from Aug. 2010.
Rail Freight Cars in Storage (p. 29)	↓ **to 331,074** on October 1, 2010 (21.6% of the fleet), down 17,638 cars from September 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.

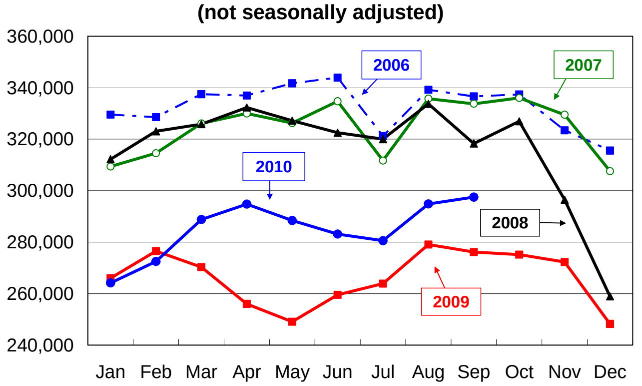
What is it and why is it important?

- The AAR traffic report details rail carloadings by railroad for 19 different major commodity categories, as well as intermodal units (truck trailers and shipping containers). Railroads reporting to the AAR collectively account for around 95% 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 broader economic activity, especially of the “tangible” economy.

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

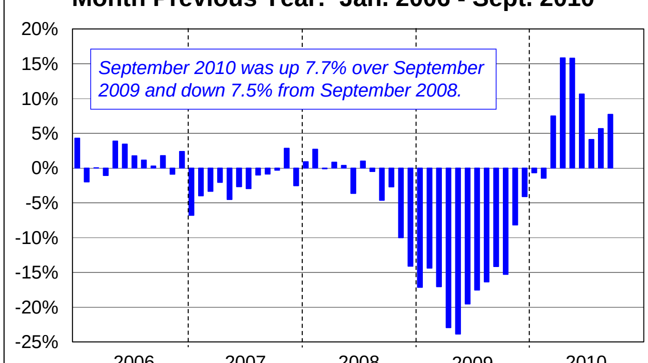
- U.S. freight railroads originated 1,487,511 carloads in September 2010, an average of 297,502 carloads per week (see chart below left). That’s **up 7.7% from September 2009** and **down 7.5% from September 2008** on a non-seasonally adjusted basis (see chart below right). It’s also the **highest weekly average for any month since October 2008**. September in all three years included the Labor Day holiday.
- Non-seasonally adjusted U.S. **carloads in Q3 2010 were up 6.0% over Q3 2009** (see the chart on the bottom left of the next page). That's less than the 13.8% gain in Q2 2010 over Q2 2009, but comparisons in Q2 were much easier than in Q3 — *i.e.*, there was significant traffic growth from Q2 2009 to Q3 2009 (see chart below left). U.S. railroads originated nearly 41,000 more carloads in Q3 2010 than in Q2 2010, even though the percentage gain over the previous year was much smaller in Q3 2010 than in Q2 2010.
- Average unadjusted weekly carloads are typically lower in September than in August because of the Labor Day holiday. This year, though, September’s weekly unadjusted average (297,502) was higher than August’s (294,862). Why? The week with Labor Day was, as usual, one of the lowest-volume weeks of the year, but the other four weeks in September 2010 were all among the six highest-volume weeks of the year. The top two weeks so far in 2010 were in September.
- That explains why **seasonally adjusted U.S. rail carloads were up 1.9% in September 2010 over August 2010** (see the top left chart on page 14), reaching their highest level since November 2008.

Average Weekly U.S. Rail Carloads: All Commodities
(not seasonally adjusted)



Data are weekly average originations for each month, exclude the U.S. operations of CN and CP, and reflect revisions from original reporting. Source: AAR *Weekly Railroad Traffic*

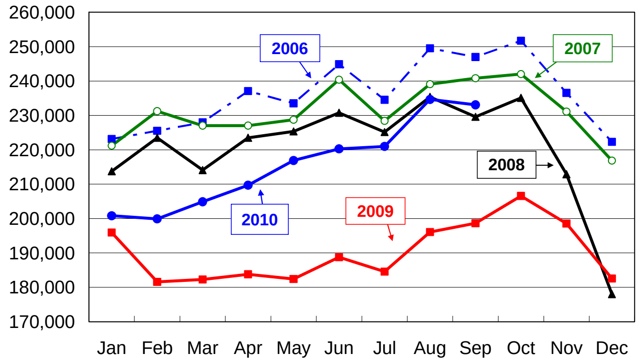
% Change in Total U.S. Rail Carloads From Same Month Previous Year: Jan. 2006 - Sept. 2010



Data are based on originations, are not seasonally adjusted, exclude U.S. operations of CN and CP, and reflect revisions to original reporting. Source: AAR *Weekly Railroad Traffic*

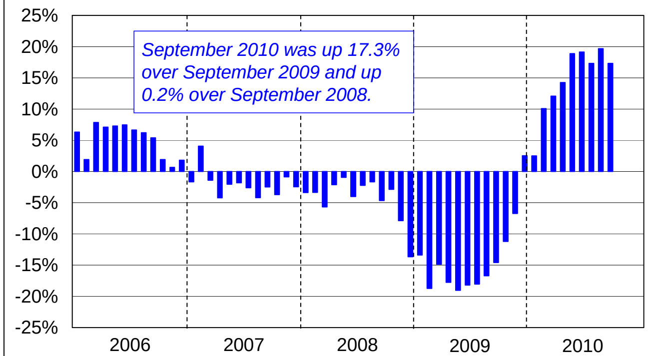
- On an unadjusted basis, U.S. railroads originated 106,672 more carloads in September 2010 than in September 2009, but 121,010 fewer carloads than in September 2008. **16 of the 19** commodity categories saw **carload gains in September 2010 compared to September 2009**, paced by coal (up 4.7%, or 30,111 carloads); metallic ores (up 77.2%, or 16,978 carloads); grain (up 13.8%, or 14,123 carloads); and crushed stone, sand, and gravel (up 14.9%, or 11,399 carloads). The tables and charts beginning on page 5 have more commodity detail.

Average Weekly U.S. Rail Intermodal Traffic
(not seasonally adjusted)



Data are weekly average originations for each month, exclude U.S. operations of CN and CP, and reflect revisions from original reporting. Source: AAR *Weekly Railroad Traffic*

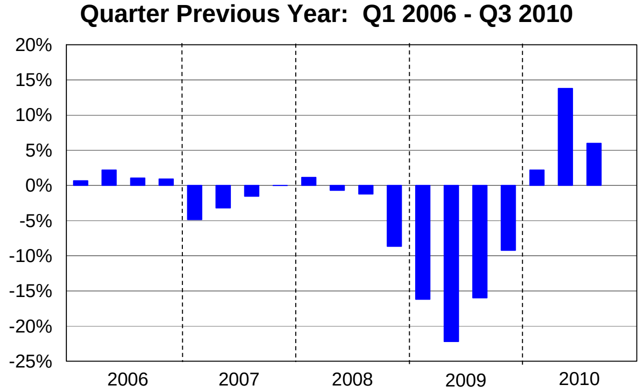
% Change in Total U.S. Rail Intermodal Traffic From Same Month Prev. Year: Jan. 2006 - Sept. 2010



Data are based on originations, are not seasonally adjusted, exclude U.S. operations of CN and CP, and reflect revisions to original reporting. Source: AAR *Weekly Railroad Traffic*

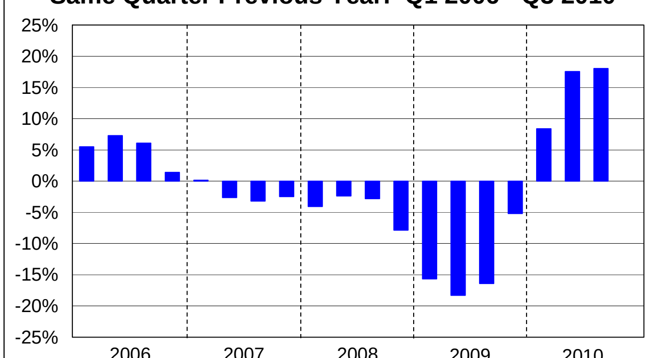
- U.S. railroads originated 1,165,288 intermodal trailers and containers in September 2010, an average of 233,058 per week on an unadjusted basis (see chart above left). That's down slightly from August 2010, but that's just due to Labor Day. **The four non-Labor Day weeks in September were four of the top five intermodal weeks so far in 2010**. September 2010 intermodal traffic was **up 17.3% over September 2009** and **up 0.2% over September 2008**. Intermodal traffic was up 18.1% in Q3 2010 over Q3 2009.
- On an unadjusted basis, September is traditionally the second (sometimes third) highest-volume month of the year for intermodal, behind October. Intermodal peaks in the fall as retailers stock up for the holidays.
- **On a seasonally adjusted basis, U.S. rail intermodal traffic fell fractionally (0.08%) in September 2010 from August 2010** (see top right chart on page 14). The seasonally-adjusted weekly average of 224,189 trailers and containers in September 2010 was still the second highest since August 2008.

% Change in Total U.S. Rail Carloads From Same Quarter Previous Year: Q1 2006 - Q3 2010



Data are based on originations, are not seasonally adjusted, exclude U.S. operations of CN and CP, and reflect revisions to original reporting. Source: AAR *Weekly Railroad Traffic*

% Change in Total U.S. Rail Intermodal Traffic From Same Quarter Previous Year: Q1 2006 - Q3 2010

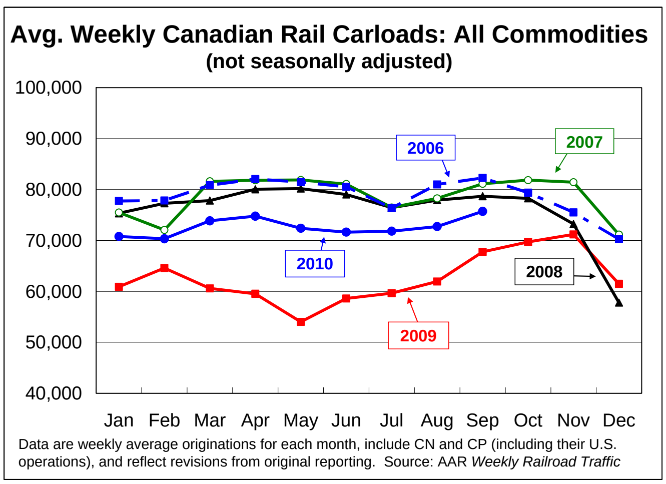


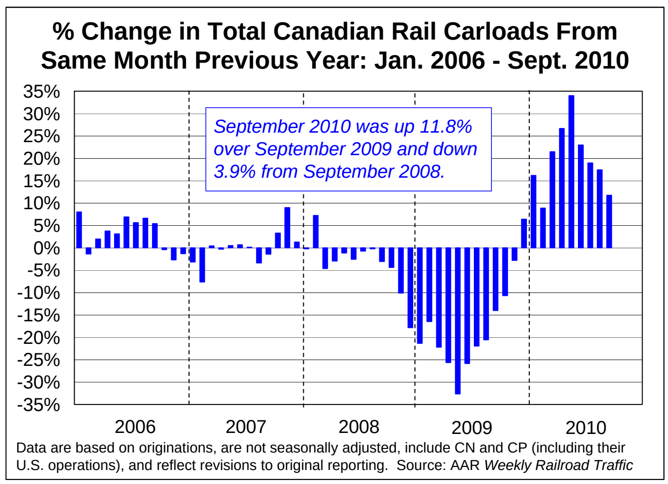
Data are based on originations, are not seasonally adjusted, exclude U.S. operations of CN and CP, and reflect revisions to original reporting. Source: AAR *Weekly Railroad Traffic*

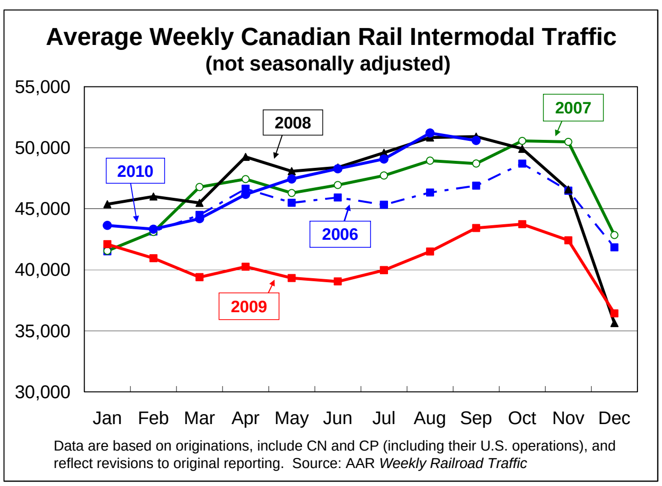
- All in all, September 2010 U.S. rail traffic data continue to point to what they've been pointing to for many months now: an economy that continues to grow slowly, no signs of impending doom, but a long way to go to get back to where we once were.

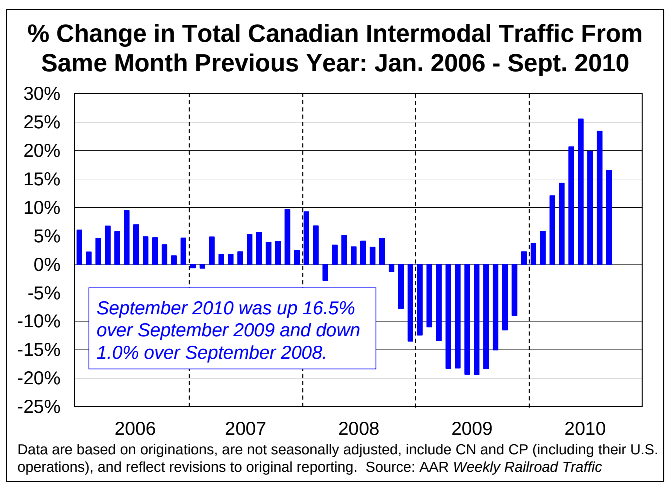
What are the latest numbers for Canadian railroads?

- On a non-seasonally adjusted basis, Canadian railroads (including the extensive U.S. operations of Canadian railroads) originated 378,561 carloads of freight in September 2010, an average of 75,712 carloads per week. That's **up 11.8% over September 2009 and down 3.9% from September 2008**. Canadian carload traffic was up 15.6% in Q3 2010 over Q3 2009.
- Canadian carloads in September 2010 were **higher in 12 of the 19 commodity categories** compared with September 2009, paced by metallic ores (up 26.5%, or 13,934 carloads) and chemicals (up 19.4%, or 12,135 carloads). Grain carloads were down 6.0% (2,689 carloads). See page 6 for more commodity-level detail for Canadian railroads.
- Canadian railroads also originated 252,947 intermodal units in September 2010, an average of 50,589 per week, **up 16.5% over September 2009,** and **down 1.0% from September 2008**. Canadian intermodal traffic in Q3 2010 was up 19.6% over Q3 2009.
- **Seasonally adjusted total Canadian rail carloads in September 2010 were up fractionally (0.05%) over August 2010**, while **seasonally adjusted intermodal volumes in September 2010 were down 1.1% from August 2010**. (See charts on the middle row of page 14.)









U.S. RAIL TRAFFIC: SEPTEMBER 2010*

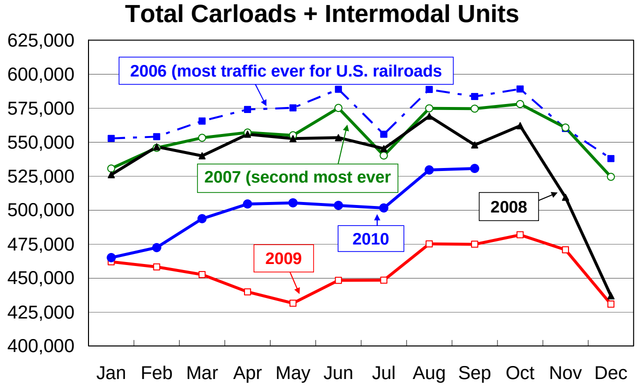
(5 weeks ending October 2, 2010)

Commodity	Sept. '10	Sept. '09	Sept. '08	Difference '10-'09	Difference '10-'08	% Change '10-'09	% Change '10-'08
Agricultural & food products	**202,408**	**183,568**	**200,730**	**18,840**	**1,678**	**10.3%**	**0.8%**
Grain	116,422	102,299	112,041	14,123	4,381	13.8%	3.9%
Farm products excl. grain	5,418	4,197	4,425	1,221	993	29.1%	22.4%
Grain mill products (1)	40,034	38,616	41,721	1,418	-1,687	3.7%	-4.0%
Food products	40,534	38,456	42,543	2,078	-2,009	5.4%	-4.7%
Chemicals and petroleum	**173,719**	**162,543**	**162,540**	**11,176**	**11,179**	**6.9%**	**6.9%**
Chemicals	146,130	136,415	134,348	9,715	11,782	7.1%	8.8%
Petroleum products (2)	27,589	26,128	28,192	1,461	-603	5.6%	-2.1%
Coal	**675,992**	**645,881**	**745,131**	**30,111**	**-69,139**	**4.7%**	**-9.3%**
Forest products	**50,906**	**47,931**	**62,594**	**2,975**	**-11,688**	**6.2%**	**-18.7%**
Primary forest products (3)	7,983	8,030	10,964	-47	-2,981	-0.6%	-27.2%
Lumber & wood products	12,150	11,263	15,876	887	-3,726	7.9%	-23.5%
Pulp & paper products	30,773	28,638	35,754	2,135	-4,981	7.5%	-13.9%
Metallic ores and metals	**102,244**	**72,087**	**115,075**	**30,157**	**-12,831**	**41.8%**	**-11.2%**
Metallic ores (4)	38,966	21,988	39,682	16,978	-716	77.2%	-1.8%
Coke	17,232	13,810	17,992	3,422	-760	24.8%	-4.2%
Primary metal products (5)	46,046	36,289	57,401	9,757	-11,355	26.9%	-19.8%
Motor vehicles & parts	**66,581**	**66,438**	**75,965**	**143**	**-9,384**	**0.2%**	**-12.4%**
Nonmetallic minerals & prod.	**150,177**	**136,708**	**168,414**	**13,469**	**-18,237**	**9.9%**	**-10.8%**
Crushed stone, gravel, sand	88,018	76,619	95,681	11,399	-7,663	14.9%	-8.0%
Nonmetallic minerals (6)	25,707	26,702	29,167	-995	-3,460	-3.7%	-11.9%
Stone, clay & glass prod. (7)	36,452	33,387	43,566	3,065	-7,114	9.2%	-16.3%
Other	**65,484**	**65,683**	**78,072**	**-199**	**-12,588**	**-0.3%**	**-16.1%**
Waste & scrap materials (8)	40,935	41,211	48,755	-276	-7,820	-0.7%	-16.0%
All other carloads	24,549	24,472	29,317	77	-4,768	0.3%	-16.3%
TOTAL ALL CARLOADS	**1,487,511**	**1,380,839**	**1,608,521**	**106,672**	**-121,010**	**7.7%**	**-7.5%**
Trailers	168,321	156,136	244,921	12,185	-76,600	7.8%	-31.3%
Containers	996,967	837,099	918,226	159,868	78,741	19.1%	8.6%
TOTAL ALL INTERMODAL	**1,165,288**	**993,235**	**1,163,147**	**172,053**	**2,141**	**17.3%**	**0.2%**

(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.

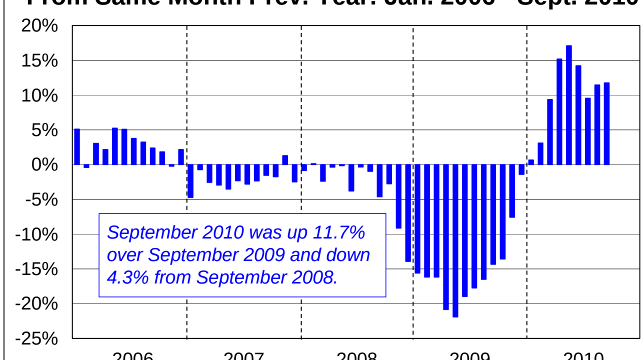
*Data are originations and are not seasonally adjusted. Includes BNSF, CSX, KCS, NS, UP, Birmingham Southern, Florida East Coast, Lake Superior & Ishpeming, and Paducah & Louisville. Does not include CN's and CP's U.S. operations. Source: AAR *Weekly Railroad Traffic*

Average Weekly U.S. Rail Traffic: Total Carloads + Intermodal Units



Data are weekly average originations for each month, are not seasonally adjusted, exclude U.S. operations of CN and CP, and reflect revisions from original reporting. Source: AAR

% Change in U.S. Rail Carloads + Intermodal Units From Same Month Prev. Year: Jan. 2006 - Sept. 2010



Data are based on originations, are not seasonally adjusted, exclude U.S. operations of CN and CP, and reflect revisions to original reporting. Source: AAR *Weekly Railroad Traffic*

CANADIAN RAIL TRAFFIC: SEPTEMBER 2010*

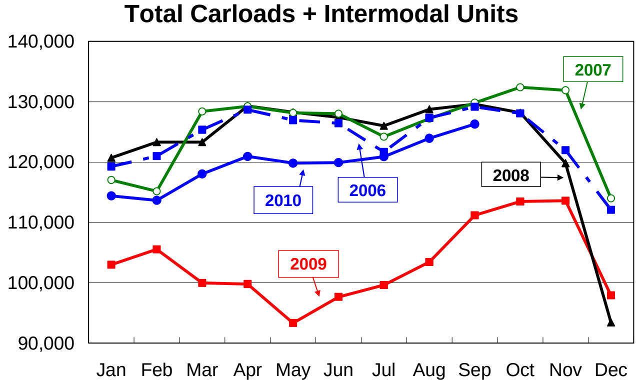
(5 weeks ending October 2, 2010)

				Difference		% Change	
Commodity	**Sept. '10**	**Sept. '09**	**Sept. '08**	**'10-'09**	**'10-'08**	**'10-'09**	**'10-'08**
Agricultural & food products	**79,317**	**76,924**	**83,695**	**2,393**	**-4,378**	**3.1%**	**-5.2%**
Grain	42,283	44,972	48,410	-2,689	-6,127	-6.0%	-12.7%
Farm products excl. grain	17,422	13,710	17,691	3,712	-269	27.1%	-1.5%
Grain mill products (1)	7,108	7,178	7,347	-70	-239	-1.0%	-3.3%
Food products	12,504	11,064	10,247	1,440	2,257	13.0%	22.0%
Chemicals and petroleum	**77,913**	**65,986**	**72,720**	**11,927**	**5,193**	**18.1%**	**7.1%**
Chemicals	74,600	62,465	69,425	12,135	5,175	19.4%	7.5%
Petroleum products (2)	3,313	3,521	3,295	-208	18	-5.9%	0.5%
Coal	**41,386**	**38,068**	**41,694**	**3,318**	**-308**	**8.7%**	**-0.7%**
Forest products	**35,659**	**34,824**	**44,174**	**835**	**-8,515**	**2.4%**	**-19.3%**
Primary forest products (3)	7,039	7,871	9,669	-832	-2,630	-10.6%	-27.2%
Lumber & wood products	10,162	10,291	13,138	-129	-2,976	-1.3%	-22.7%
Pulp & paper products	18,458	16,662	21,367	1,796	-2,909	10.8%	-13.6%
Metallic ores and metals	**81,506**	**64,181**	**84,578**	**17,325**	**-3,072**	**27.0%**	**-3.6%**
Metallic ores (4)	66,478	52,544	68,984	13,934	-2,506	26.5%	-3.6%
Coke	2,800	2,685	2,652	115	148	4.3%	5.6%
Primary metal products (5)	12,228	8,952	12,942	3,276	-714	36.6%	-5.5%
Motor vehicles & parts	**25,623**	**21,269**	**24,388**	**4,354**	**1,235**	**20.5%**	**5.1%**
Nonmetallic minerals & prod.	**26,407**	**25,848**	**30,084**	**559**	**-3,677**	**2.2%**	**-12.2%**
Crushed stone, gravel, sand	13,160	12,833	13,324	327	-164	2.5%	-1.2%
Nonmetallic minerals (6)	6,439	5,738	7,916	701	-1,477	12.2%	-18.7%
Stone, clay & glass prod. (7)	6,808	7,277	8,844	-469	-2,036	-6.4%	-23.0%
Other	**10,750**	**11,657**	**12,579**	**-907**	**-1,829**	**-7.8%**	**-14.5%**
Waste & scrap materials (8)	6,572	6,499	7,861	73	-1,289	1.1%	-16.4%
All other carloads	4,178	5,158	4,718	-980	-540	-19.0%	-11.4%
TOTAL ALL CARLOADS	**378,561**	**338,757**	**393,912**	**39,804**	**-15,351**	**11.8%**	**-3.9%**
Trailers	7,717	8,561	10,112	-844	-2,395	-9.9%	-23.7%
Containers	245,230	208,556	245,375	36,674	-145	17.6%	-0.1%
TOTAL ALL INTERMODAL	**252,947**	**217,117**	**255,487**	**35,830**	**-2,540**	**16.5%**	**-1.0%**

(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.

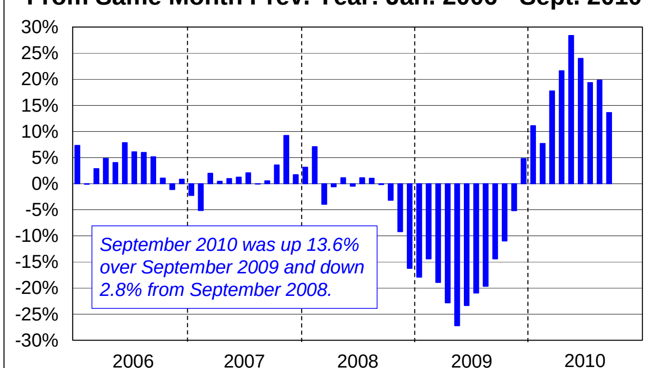
*CN and CP, including their U.S. operations. Data are originations and are not seasonally adjusted. Source: AAR *Weekly Railroad Traffic*

Average Weekly Canadian Rail Traffic: Total Carloads + Intermodal Units



Data are weekly average originations for each month, are not seasonally adjusted, include CN and CP (including their U.S. operations), and reflect revisions from original reporting. Source: AAR

% Change in Canadian Carloads + Intermodal Units From Same Month Prev. Year: Jan. 2006 - Sept. 2010



Data are based on originations, are not seasonally adjusted, include CN and CP (including their U.S. operations), and reflect revisions to original reporting. Source: AAR *Weekly Railroad Traffic*

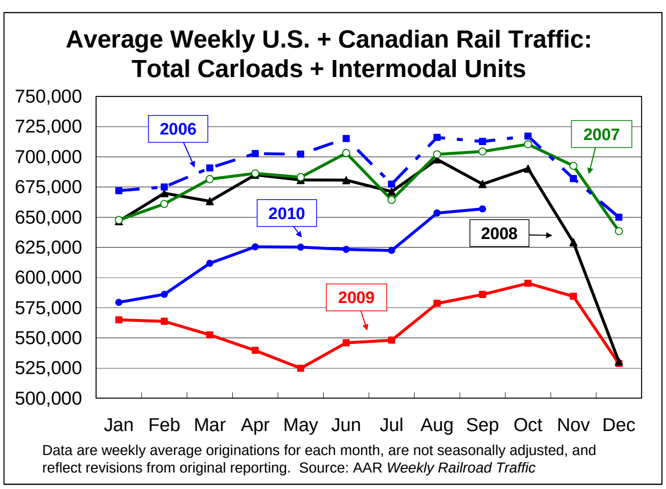
COMBINED U.S. AND CANADIAN RAIL TRAFFIC: SEPTEMBER 2010*

(5 weeks ending October 2, 2010)

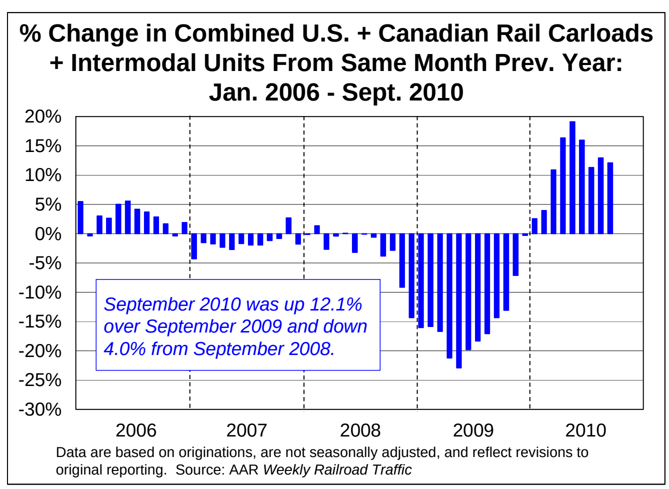
Commodity	Sept. '10	Sept. '09	Sept. '08	Difference '10-'09	Difference '10-'08	% Change '10-'09	% Change '10-'08
Agricultural & food products	**281,725**	**260,492**	**284,425**	**21,233**	**-2,700**	**8.2%**	**-0.9%**
Grain	158,705	147,271	160,451	11,434	-1,746	7.8%	-1.1%
Farm products excl. grain	22,840	17,907	22,116	4,933	724	27.5%	3.3%
Grain mill products (1)	47,142	45,794	49,068	1,348	-1,926	2.9%	-3.9%
Food products	53,038	49,520	52,790	3,518	248	7.1%	0.5%
Chemicals and petroleum	**251,632**	**228,529**	**235,260**	**23,103**	**16,372**	**10.1%**	**7.0%**
Chemicals	220,730	198,880	203,773	21,850	16,957	11.0%	8.3%
Petroleum products (2)	30,902	29,649	31,487	1,253	-585	4.2%	-1.9%
Coal	**717,378**	**683,949**	**786,825**	**33,429**	**-69,447**	**4.9%**	**-8.8%**
Forest products	**86,565**	**82,755**	**106,768**	**3,810**	**-20,203**	**4.6%**	**-18.9%**
Primary forest products (3)	15,022	15,901	20,633	-879	-5,611	-5.5%	-27.2%
Lumber & wood products	22,312	21,554	29,014	758	-6,702	3.5%	-23.1%
Pulp & paper products	49,231	45,300	57,121	3,931	-7,890	8.7%	-13.8%
Metallic ores and metals	**183,750**	**136,268**	**199,653**	**47,482**	**-15,903**	**34.8%**	**-8.0%**
Metallic ores (4)	105,444	74,532	108,666	30,912	-3,222	41.5%	-3.0%
Coke	20,032	16,495	20,644	3,537	-612	21.4%	-3.0%
Primary metal products (5)	58,274	45,241	70,343	13,033	-12,069	28.8%	-17.2%
Motor vehicles & parts	**92,204**	**87,707**	**100,353**	**4,497**	**-8,149**	**5.1%**	**-8.1%**
Nonmetallic minerals & prod.	**176,584**	**162,556**	**198,498**	**14,028**	**-21,914**	**8.6%**	**-11.0%**
Crushed stone, gravel, sand	101,178	89,452	109,005	11,726	-7,827	13.1%	-7.2%
Nonmetallic minerals (6)	32,146	32,440	37,083	-294	-4,937	-0.9%	-13.3%
Stone, clay & glass prod. (7)	43,260	40,664	52,410	2,596	-9,150	6.4%	-17.5%
Other	**76,234**	**77,340**	**90,651**	**-1,106**	**-14,417**	**-1.4%**	**-15.9%**
Waste & scrap materials (8)	47,507	47,710	56,616	-203	-9,109	-0.4%	-16.1%
All other carloads	28,727	29,630	34,035	-903	-5,308	-3.0%	-15.6%
TOTAL ALL CARLOADS	**1,866,072**	**1,719,596**	**2,002,433**	**146,476**	**-136,361**	**8.5%**	**-6.8%**
Trailers	176,038	164,697	255,033	11,341	-78,995	6.9%	-31.0%
Containers	1,242,197	1,045,655	1,163,601	196,542	78,596	18.8%	6.8%
TOTAL ALL INTERMODAL	**1,418,235**	**1,210,352**	**1,418,634**	**207,883**	**-399**	**17.2%**	**0.0%**

(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. Source: AAR *Weekly Railroad Traffic*



Data are weekly average originations for each month, are not seasonally adjusted, and reflect revisions from original reporting. Source: AAR *Weekly Railroad Traffic*

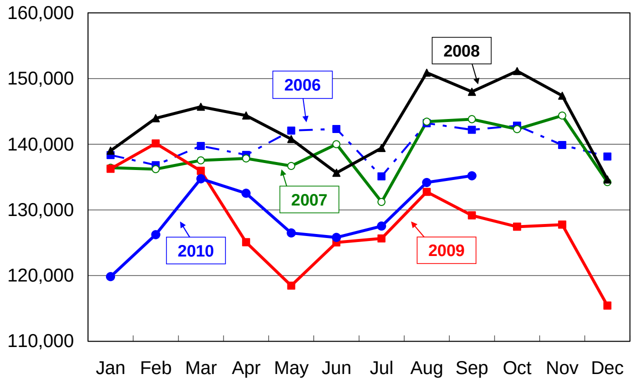


Data are based on originations, are not seasonally adjusted, and reflect revisions to original reporting. Source: AAR *Weekly Railroad Traffic*

COAL

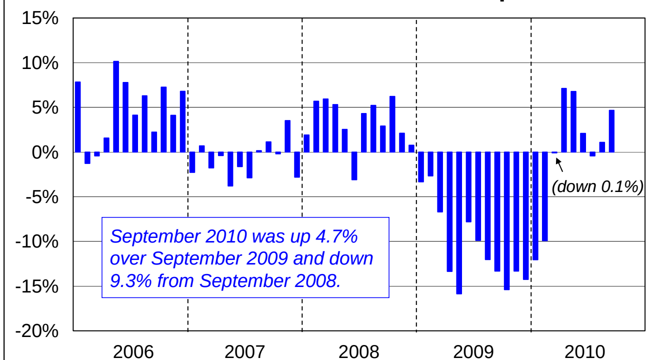
On a non-seasonally adjusted basis, U.S. railroads averaged 135,198 carloads of coal per week in September 2010, **up 4.7% over September 2009** and **down 9.3% from September 2008**. Seasonally adjusted U.S. coal carloads were up 1.3% in September 2010 over August 2010. The chart on the bottom right shows the percentage change in coal carloads from the same month in the previous year compared with the percentage change in non-coal carloads. There's not a great deal of correlation: just because coal carloads are up or down doesn't necessarily mean non-coal carloads are moving similarly.

Average Weekly U.S. Rail Carloads of Coal



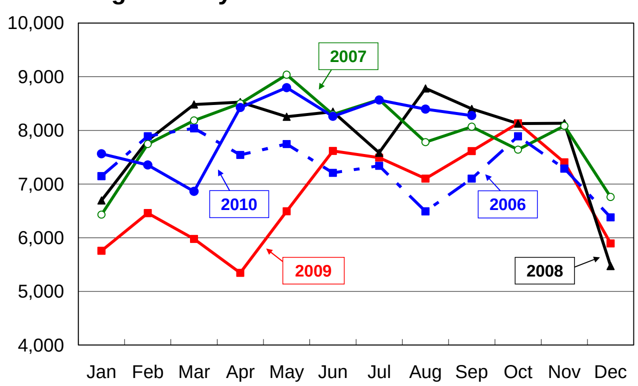
Data are weekly average originations for each month, are not seasonally adjusted, exclude U.S. operations of CN and CP, and reflect revisions from original reporting. Source: AAR

% Change in U.S. Rail Carloads of Coal From Same Month Previous Year: Jan. 2006 - Sept. 2010



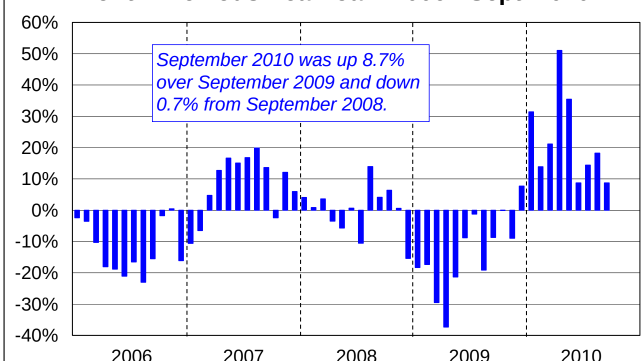
Data are based on originations, are not seasonally adjusted, exclude U.S. operations of CN and CP, and reflect revisions to original reporting. Source: AAR *Weekly Railroad Traffic*

Average Weekly Canadian Rail Carloads of Coal



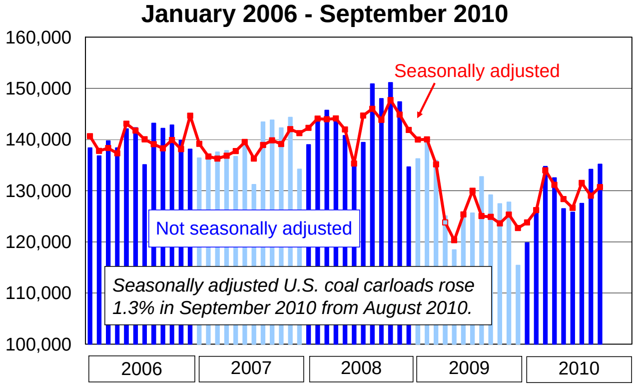
Data are weekly average originations for each month, are not seasonally adjusted, include CN and CP (including their U.S. operations), and reflect revisions from original reporting. Source: AAR

% Change in Canadian Carloads of Coal From Same Month Previous Year: Jan. 2006 - Sept. 2010



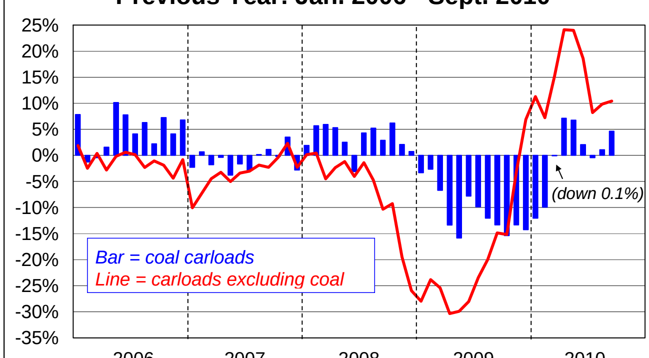
Data are based on originations, are not seasonally adjusted, include CN and CP (including their U.S. operations), and reflect revisions to original reporting. Source: AAR *Weekly Railroad Traffic*

Average Weekly U.S. Rail Carloads of Coal January 2006 - September 2010



Data are weekly average originations for each month, exclude U.S. operations of CN and CP, and reflect revisions from original reporting. Source: AAR *Weekly Railroad Traffic*

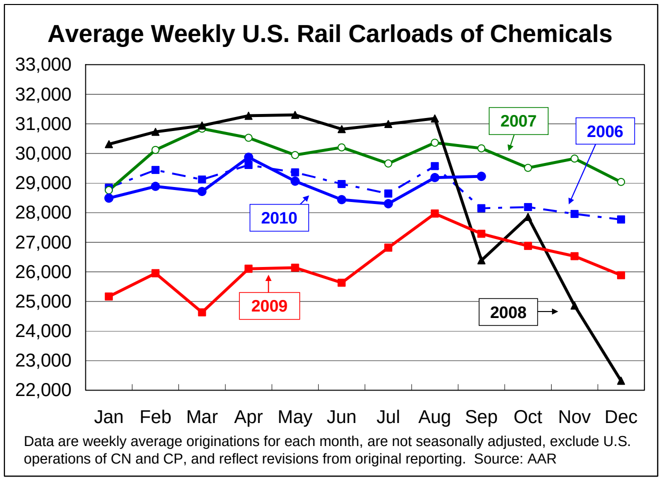
% Change in U.S. Rail Carloads From Same Month Previous Year: Jan. 2006 - Sept. 2010

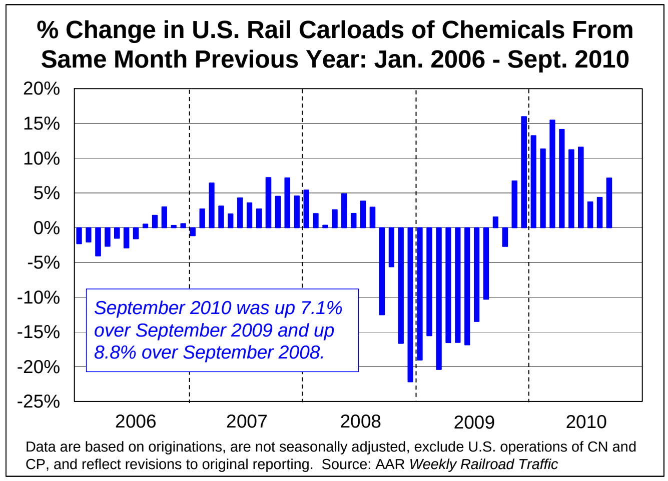


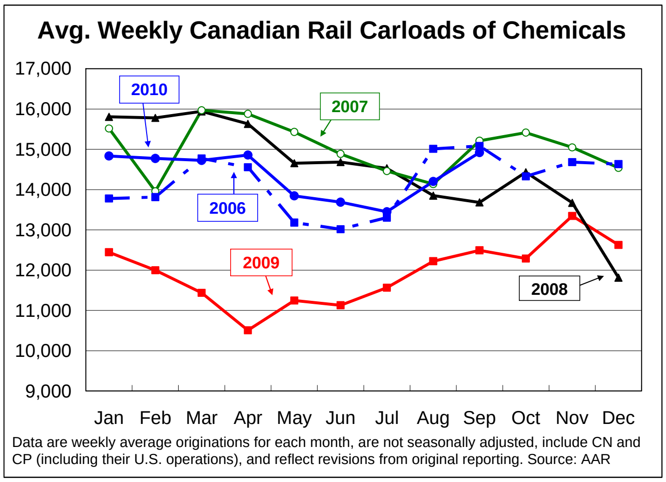
Data are based on originations, are not seasonally adjusted, exclude U.S. operations of CN and CP, and reflect revisions to original reporting. Source: AAR *Weekly Railroad Traffic*

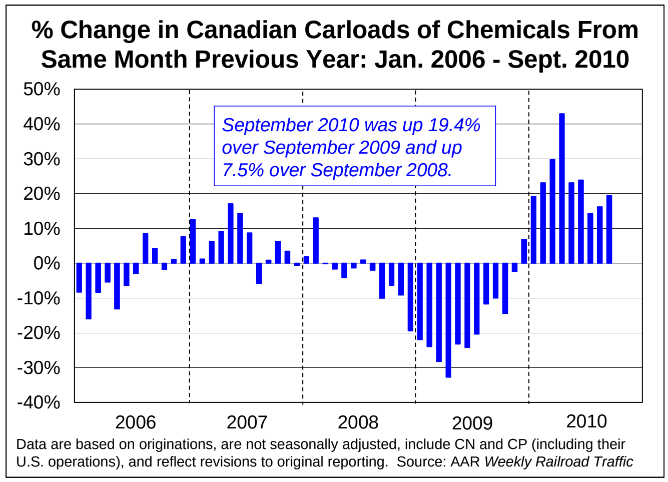
CHEMICALS

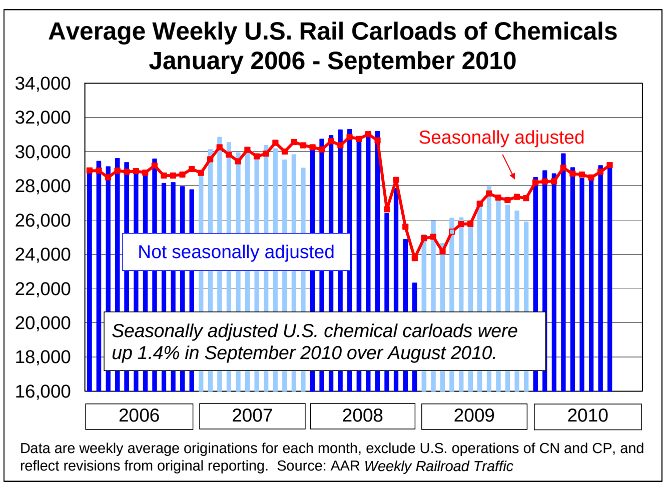
U.S. railroads originated 146,130 carloads of chemicals in September 2010, an average of 29,226 per week, up 7.1% over September 2009 and up 8.8% over September 2008. (Chemical production, and thus rail carloads of chemicals, were sharply lower in September 2008 due to a couple of nasty hurricanes that pounded Louisiana and Texas, home to many chemical production facilities.) Seasonally adjusted U.S. chemical carloads were up 1.4% in September 2010 over August 2010. The chart below right shows that tank cars and covered hoppers are used to transport most chemicals.

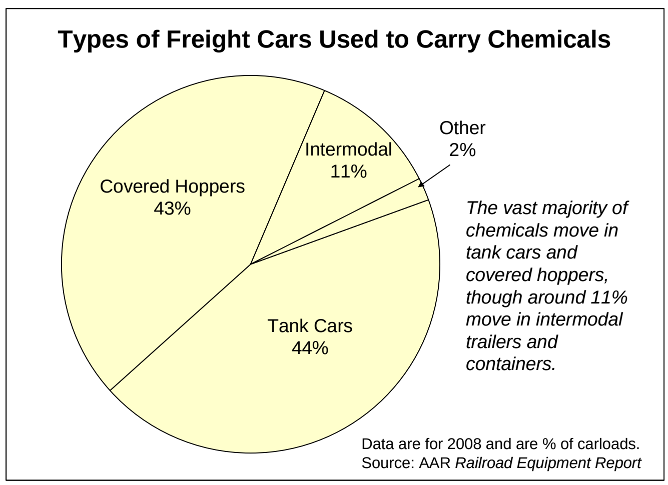






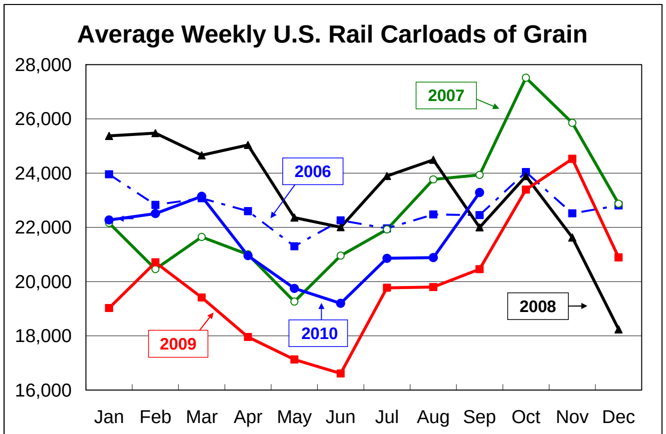




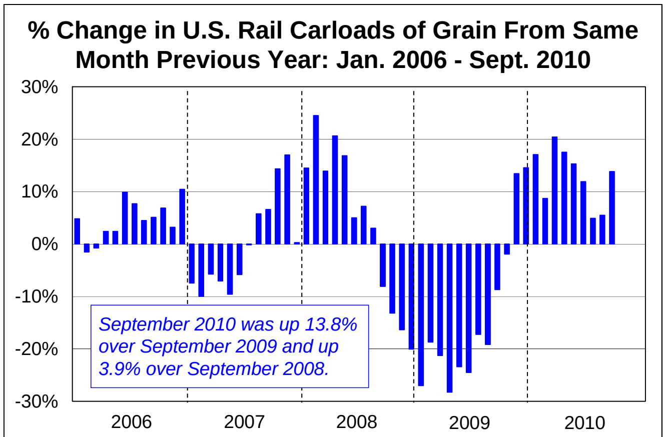


GRAIN

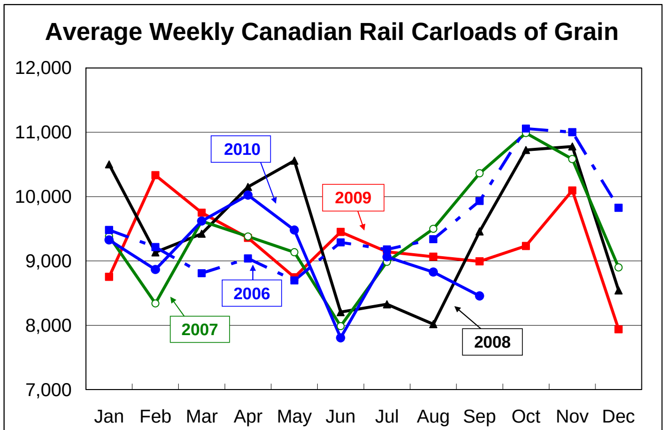
U.S. railroads originated 116,422 carloads of grain in September 2010, an average of 23,284 carloads per week. That's the highest since November 2009, 13.8% higher than September 2009, and the third straight monthly increase. In its most recent estimate, the USDA projected U.S. grain production (mainly corn, soybeans and wheat) of 551 million tons, down 2.4% from 2009 (see chart bottom left). That doesn't necessarily mean lower rail carloads of grain, though — the chart on the bottom right shows there isn't a strong correlation between grain production and rail carloads of grain over the past ten years.



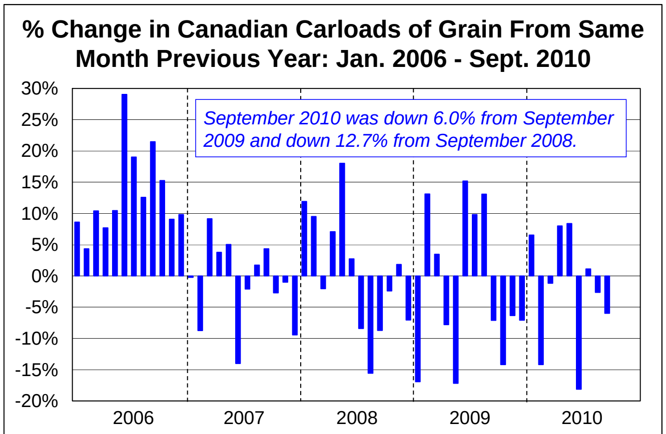
Data are weekly average originations for each month, are not seasonally adjusted, exclude U.S. operations of CN and CP, and reflect revisions from original reporting. Source: AAR



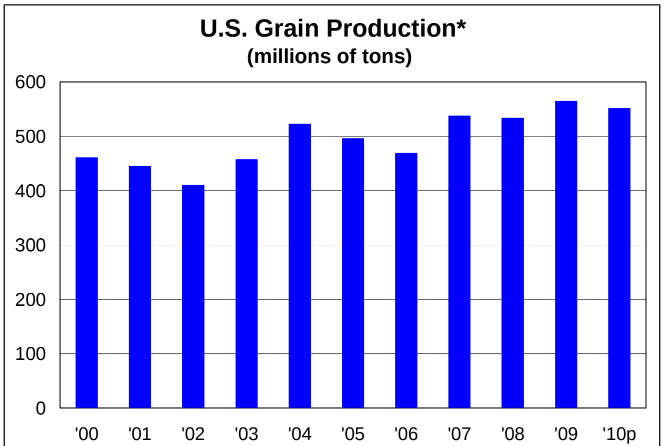
Data are based on originations, are not seasonally adjusted, exclude U.S. operations of CN and CP, and reflect revisions to original reporting. Source: AAR *Weekly Railroad Traffic*



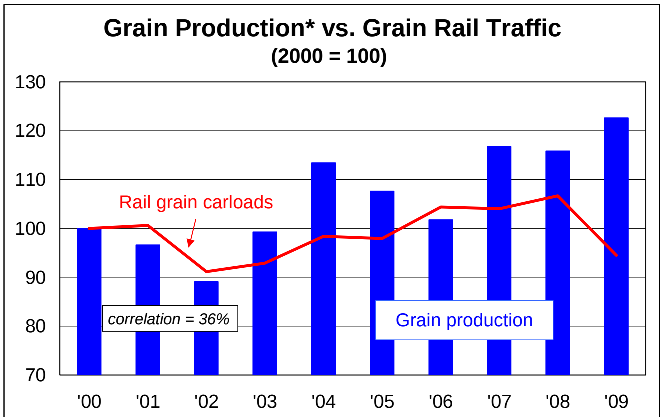
Data are weekly average originations for each month, are not seasonally adjusted, include CN and CP (including their U.S. operations), and reflect revisions from original reporting. Source: AAR



Data are based on originations, are not seasonally adjusted, include CN and CP (including their U.S. operations), and reflect revisions to original reporting. Source: AAR *Weekly Railroad Traffic*

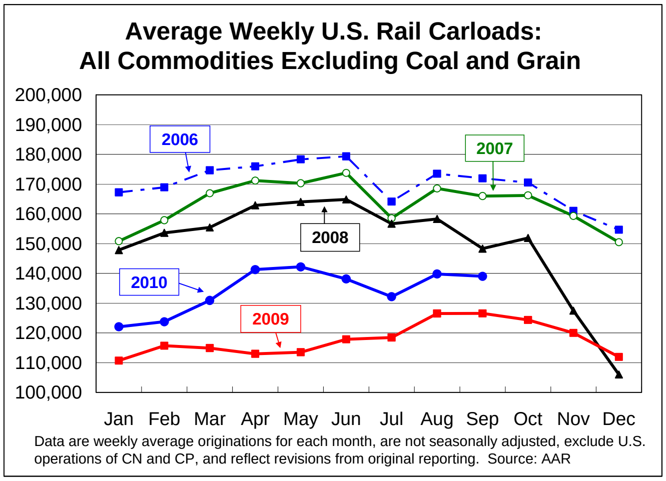


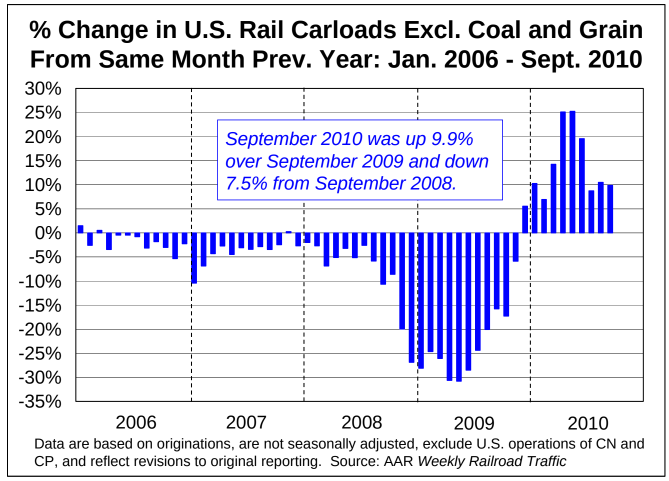
*Includes barley, corn, oats, rice, rye, sorghum, soybeans, wheat p - preliminary. Source: USDA



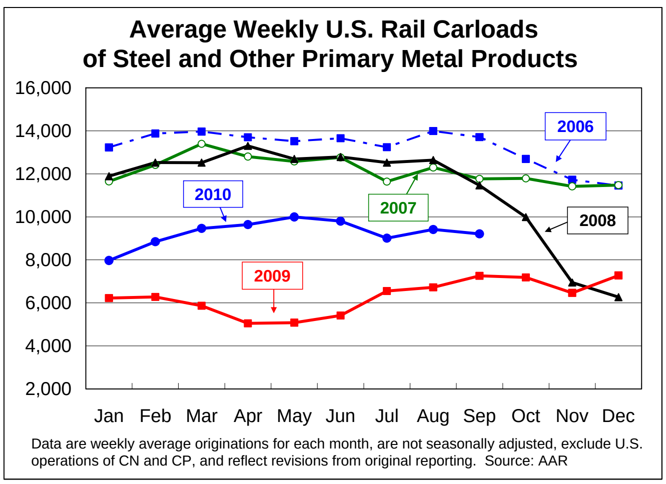
Rail data are based on originations and include U.S. and Canadian railroads. Production includes barley, corn, oats, rice, rye, sorghum, soybeans, and wheat. Source: USDA, AAR

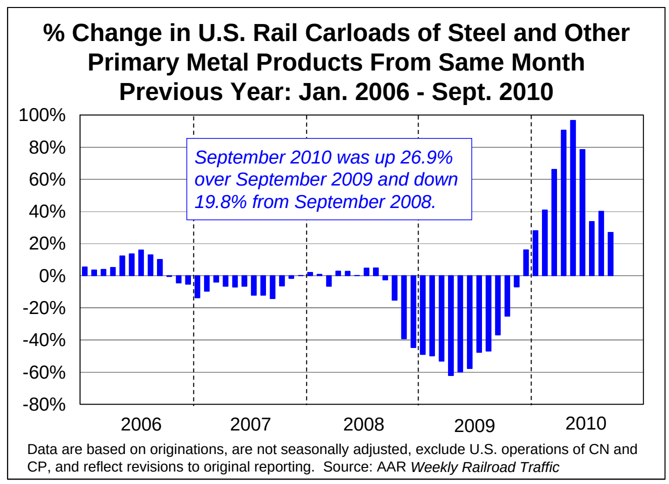
ALL COMMODITIES EXCLUDING COAL AND GRAIN



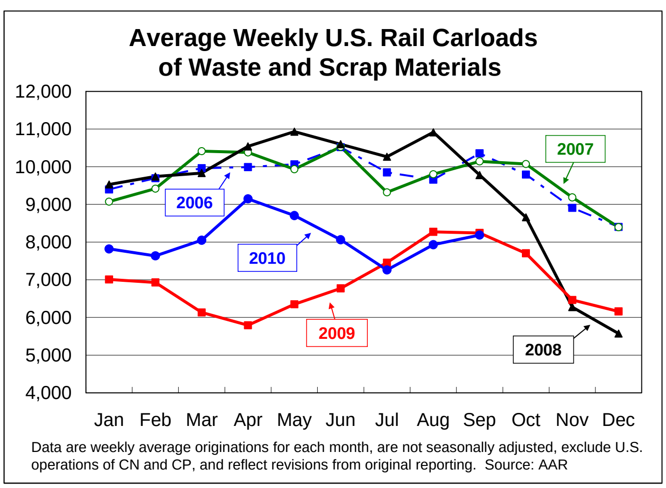


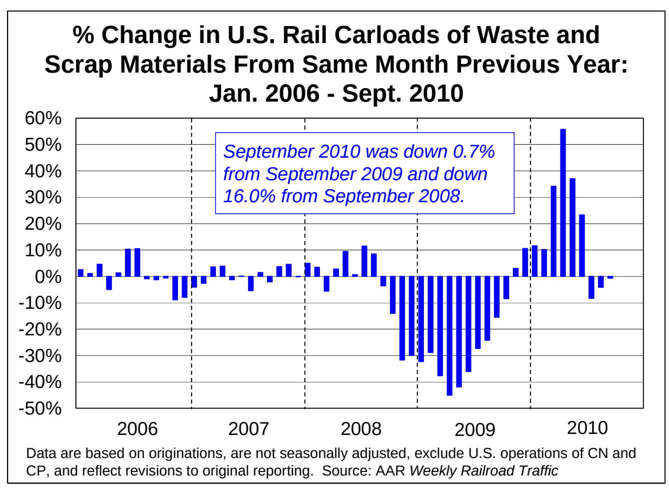
PRIMARY METAL PRODUCTS (MAINLY STEEL)



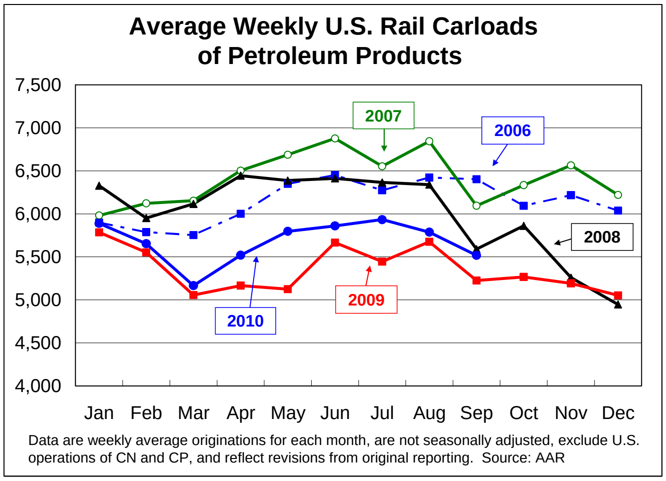


WASTE & SCRAP MATERIALS (SCRAP STEEL, SCRAP PAPER, CONSTRUCTION DEBRIS, ETC.)

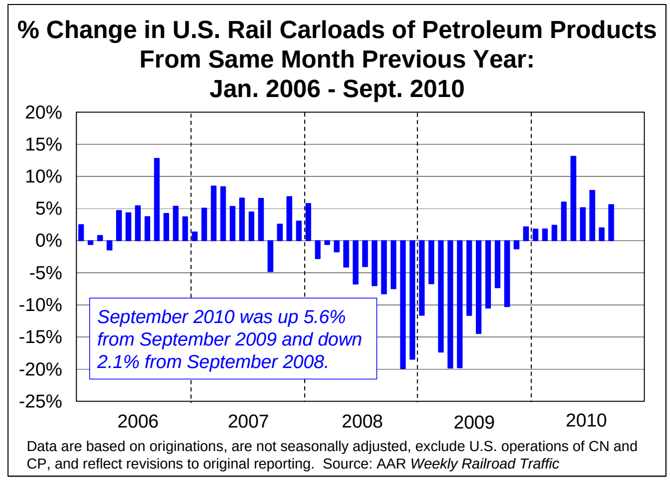




PETROLEUM PRODUCTS (LPGs, ASPHALT PRODUCTS, FUEL OIL, LUBRICATING OIL, ETC.)

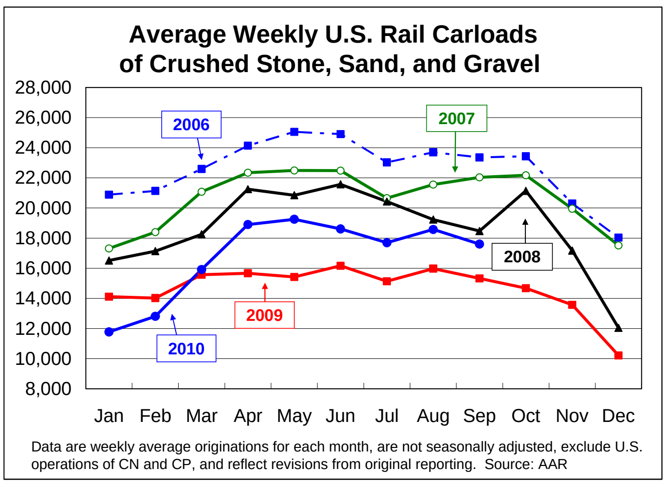


Data are weekly average originations for each month, are not seasonally adjusted, exclude U.S. operations of CN and CP, and reflect revisions from original reporting. Source: AAR

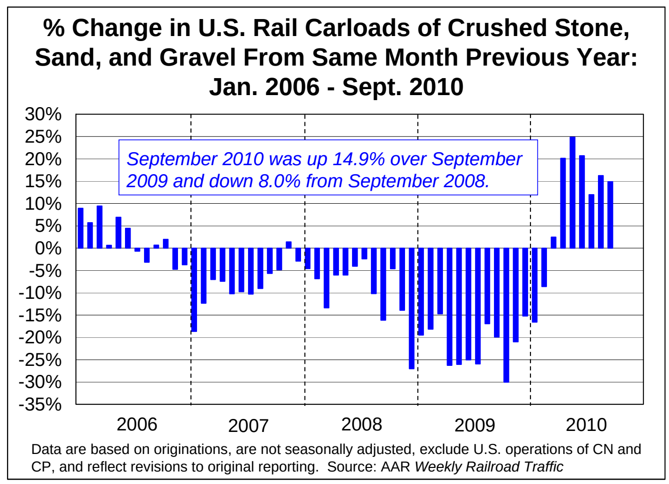


Data are based on originations, are not seasonally adjusted, exclude U.S. operations of CN and CP, and reflect revisions to original reporting. Source: AAR *Weekly Railroad Traffic*

CRUSHED STONE, SAND, AND GRAVEL

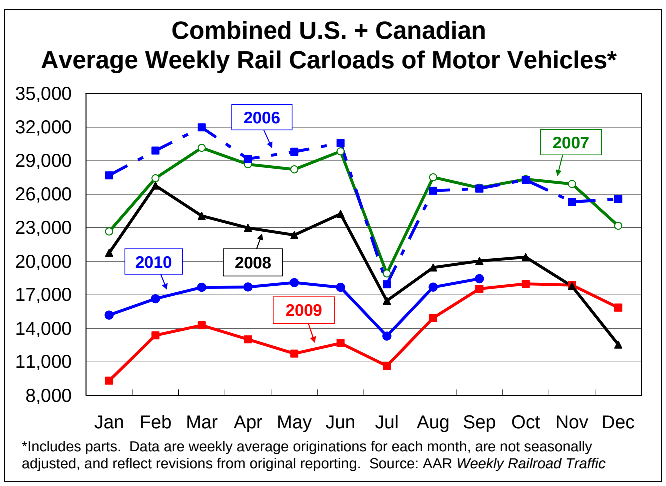


Data are weekly average originations for each month, are not seasonally adjusted, exclude U.S. operations of CN and CP, and reflect revisions from original reporting. Source: AAR

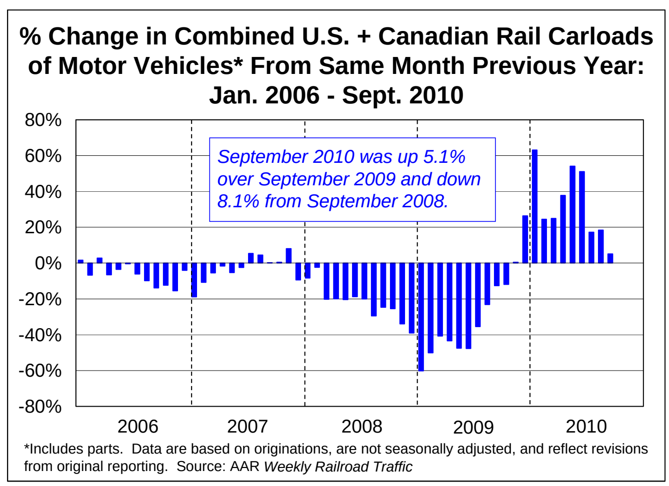


Data are based on originations, are not seasonally adjusted, exclude U.S. operations of CN and CP, and reflect revisions to original reporting. Source: AAR *Weekly Railroad Traffic*

MOTOR VEHICLES AND PARTS

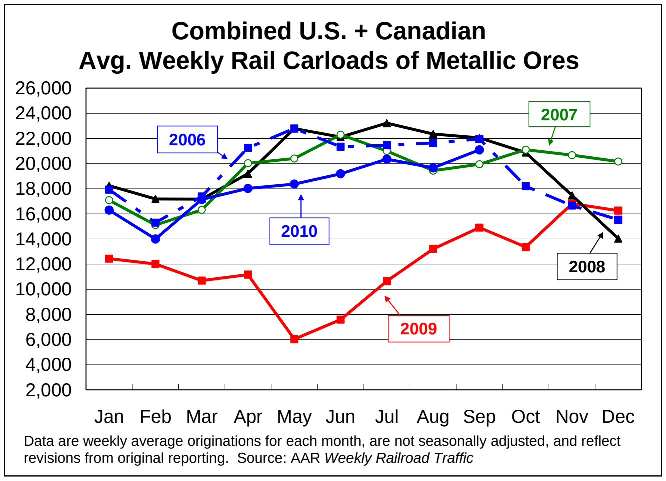


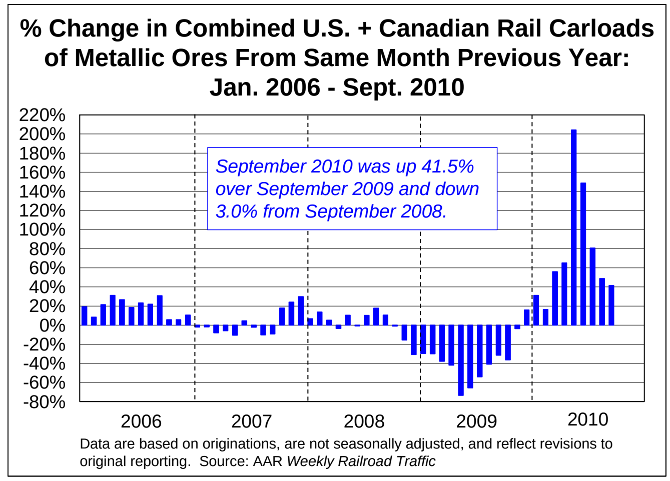
*Includes parts. Data are weekly average originations for each month, are not seasonally adjusted, and reflect revisions from original reporting. Source: AAR *Weekly Railroad Traffic*



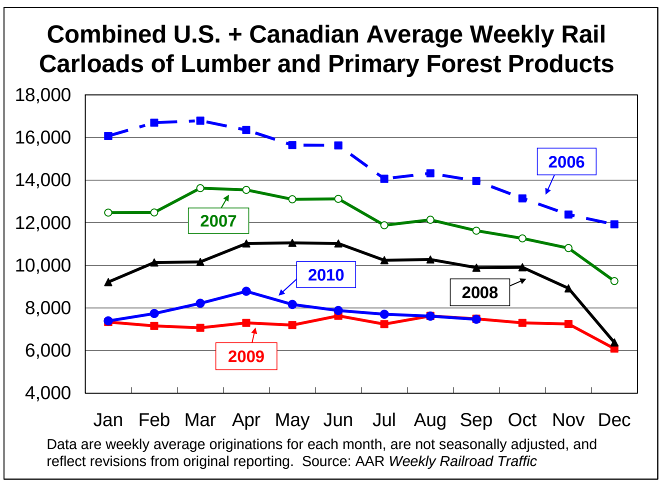
*Includes parts. Data are based on originations, are not seasonally adjusted, and reflect revisions from original reporting. Source: AAR *Weekly Railroad Traffic*

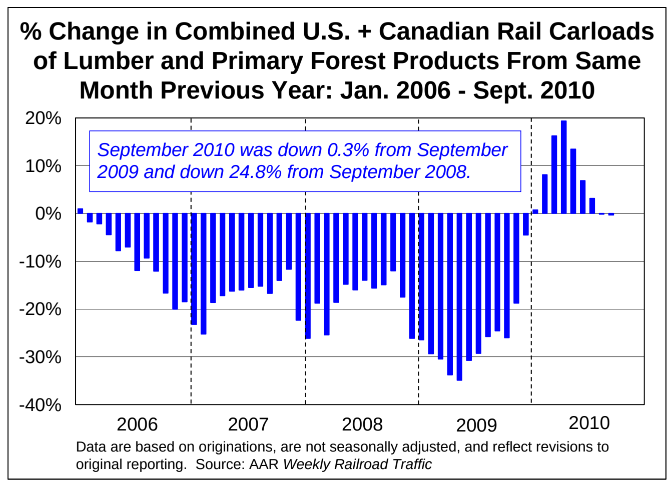
METALLIC ORES (OVERWHELMINGLY IRON ORE)



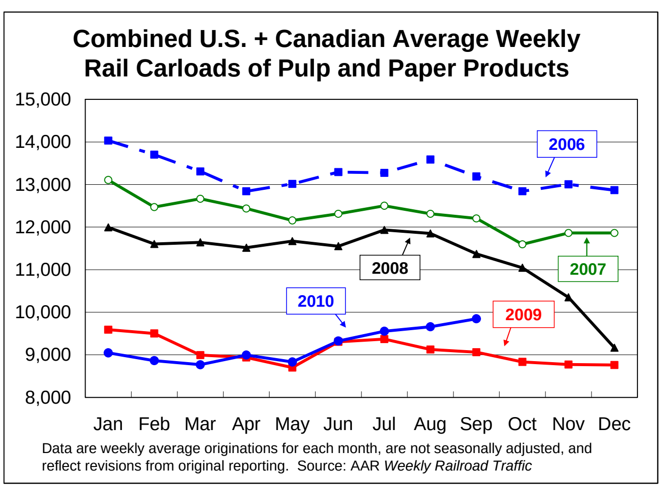


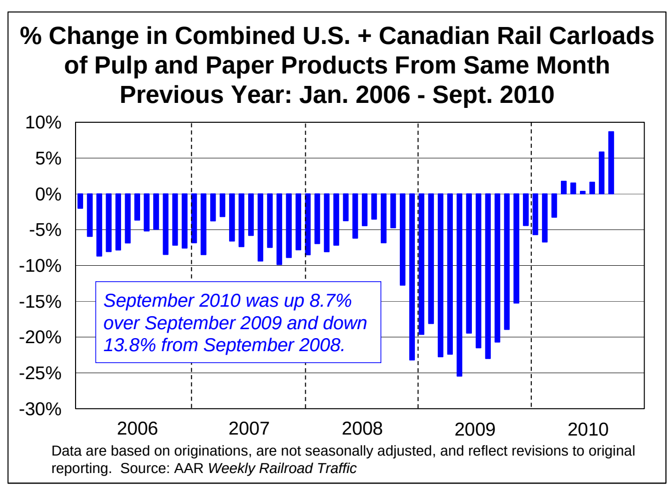
LUMBER AND WOOD PRODUCTS + PRIMARY FOREST PRODUCTS





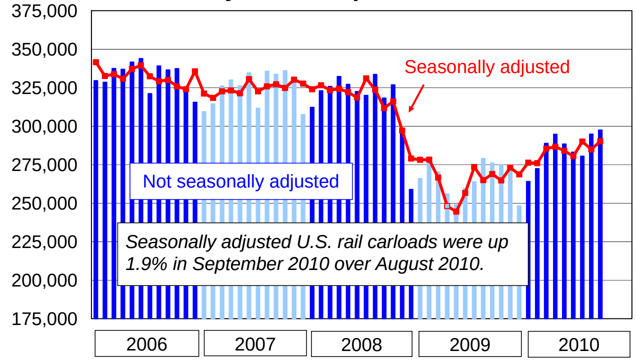
PULP AND PAPER PRODUCTS





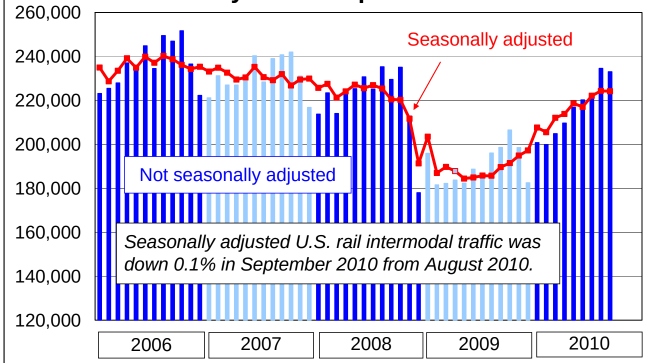
SEASONALLY ADJUSTED RAIL TRAFFIC

Average Weekly Total U.S. Rail Carloads
January 2006 - September 2010



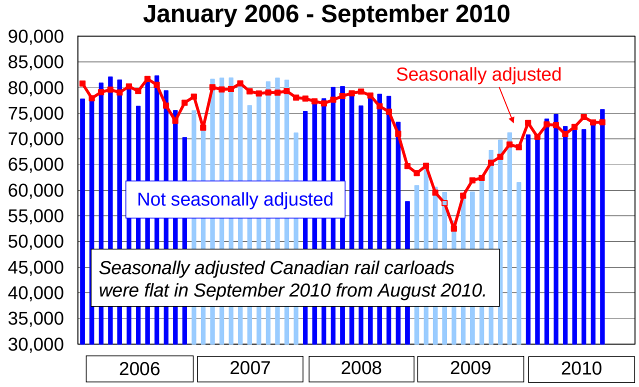
Data are weekly average originations for each month, exclude U.S. operations of CN and CP, and reflect revisions from original reporting. Source: AAR *Weekly Railroad Traffic*

Average Weekly U.S. Rail Intermodal Traffic
January 2006 - September 2010



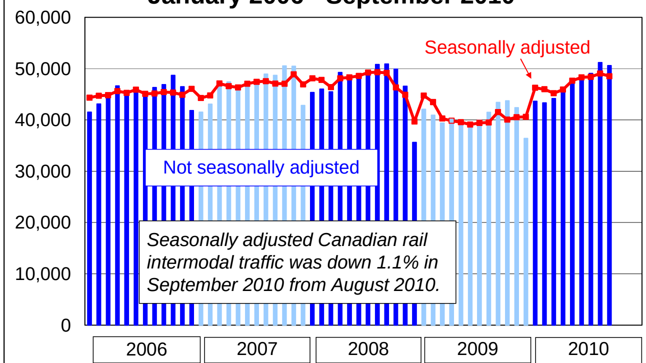
Data are weekly average originations for each month, exclude U.S. operations of CN and CP, and reflect revisions from original reporting. Source: AAR *Weekly Railroad Traffic*

Average Weekly Total Canadian Rail Carloads
January 2006 - September 2010



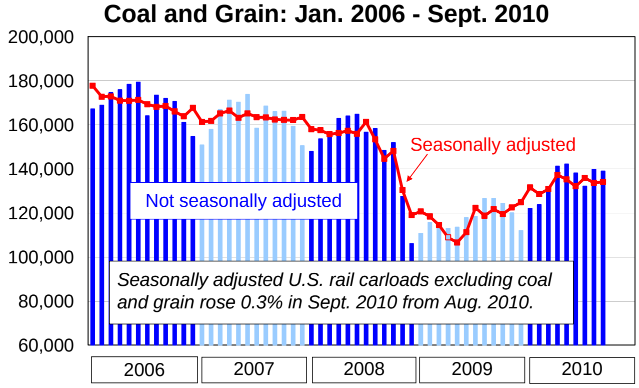
Data are weekly average originations for each month, exclude U.S. operations of CN and CP, and reflect revisions from original reporting. Source: AAR *Weekly Railroad Traffic*

Average Weekly Canadian Rail Intermodal Traffic
January 2006 - September 2010



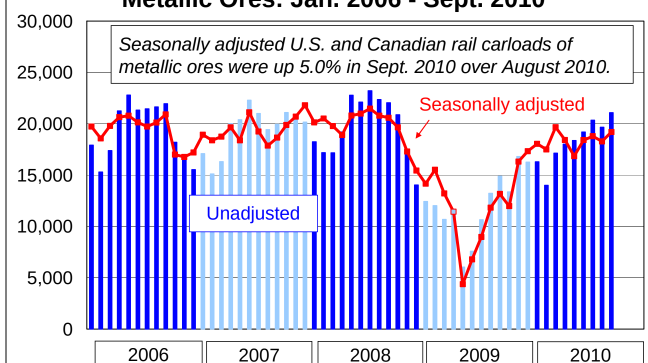
Data are weekly average originations for each month, exclude U.S. operations of CN and CP, and reflect revisions from original reporting. Source: AAR *Weekly Railroad Traffic*

Avg. Weekly Total U.S. Rail Carloads Excluding
Coal and Grain: Jan. 2006 - Sept. 2010



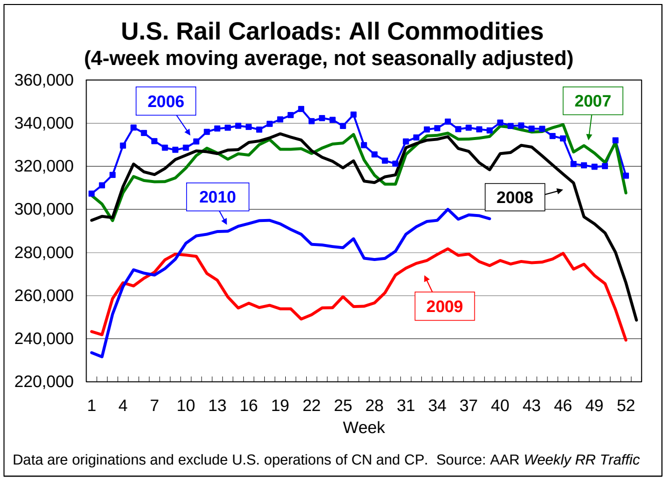
Data are weekly average originations for each month, exclude U.S. operations of CN and CP, and reflect revisions from original reporting. Source: AAR *Weekly Railroad Traffic*

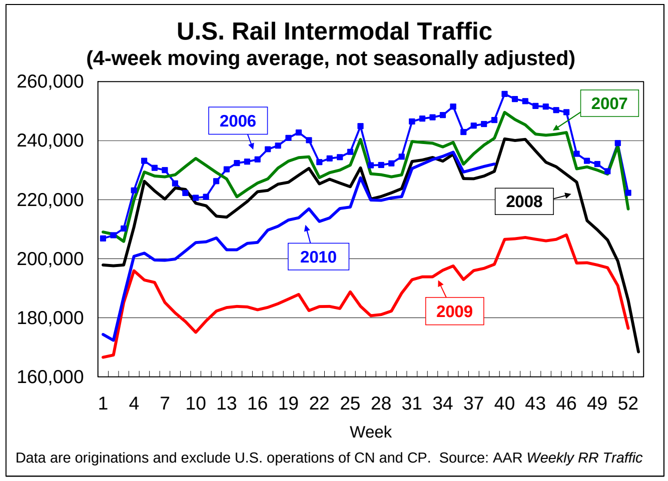
Avg. Weekly U.S. + Canadian Rail Carloads of
Metallic Ores: Jan. 2006 - Sept. 2010

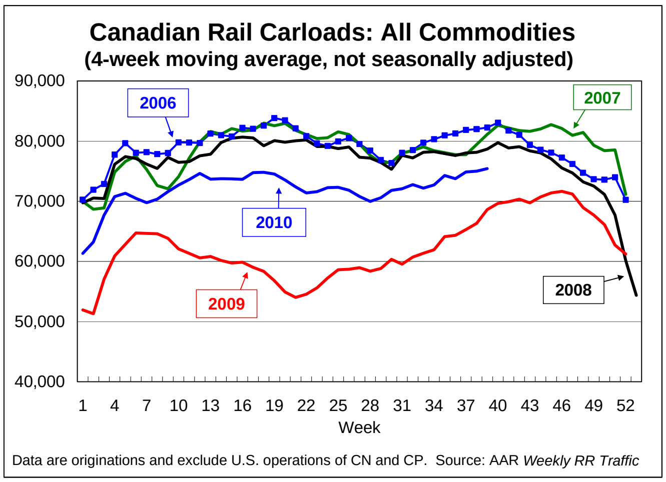


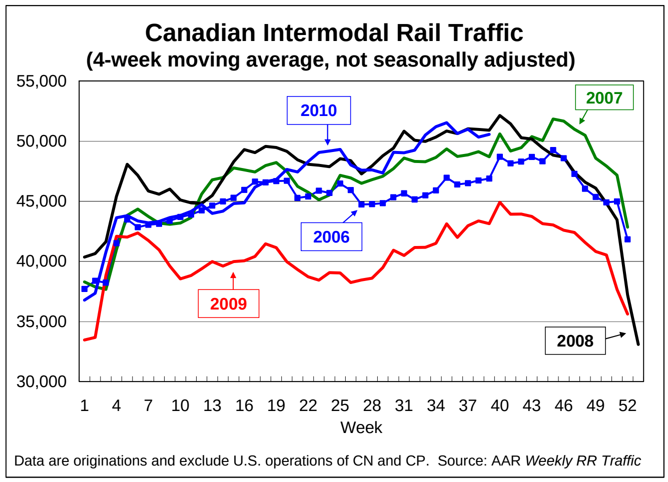
Data are weekly average originations for each month, exclude U.S. operations of CN and CP, and reflect revisions from original reporting. Source: AAR *Weekly Railroad Traffic*

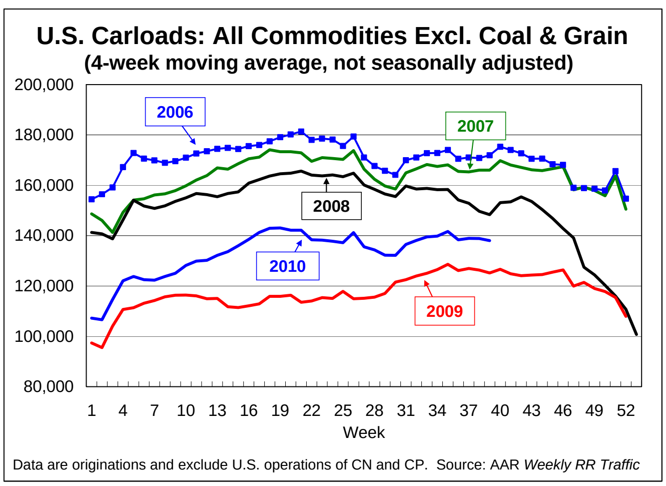
4-WEEK MOVING AVERAGES

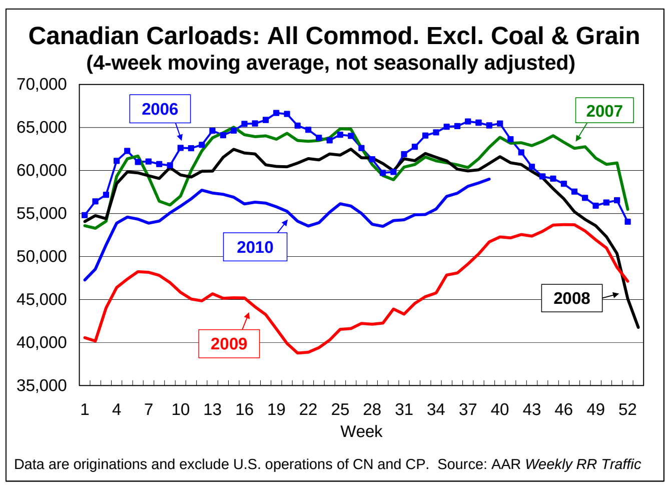












Where to go for more information:

- Weekly AAR press releases on railroad traffic are available on the AAR web site here.

GROSS DOMESTIC PRODUCT (GDP)

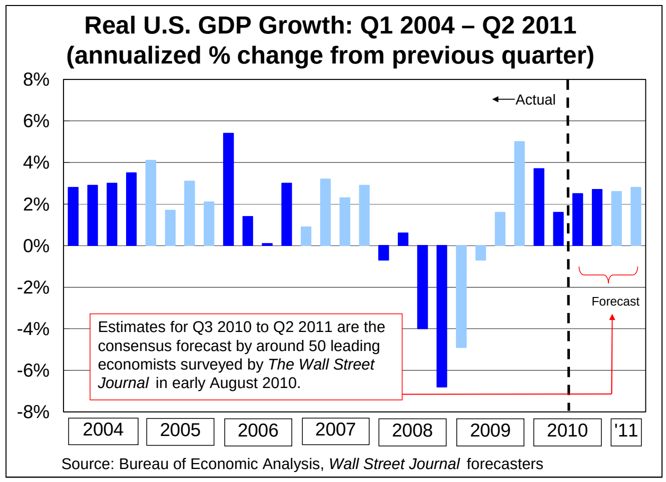
Who releases it and when?

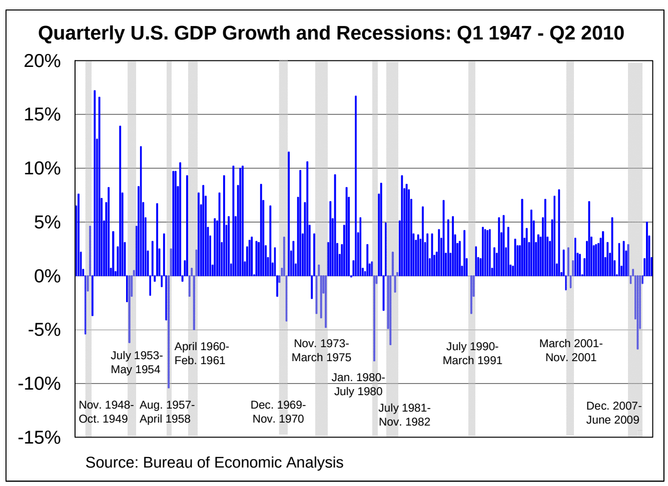
- U.S. Bureau of Economic Analysis (BEA), measured quarterly and revised several times as better data become available.

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.

What are the latest numbers?





- According to the BEA's latest estimate released on September 30, **U.S. GDP grew at an annualized rate of 1.7% in Q2 2010.** The previous estimate, released in late August, pegged GDP growth at 1.6% in Q2 2010, so the latest revision was very small.
- As noted in previous *Rail Time Indicators*, a committee of the National Bureau of Economic Research (NBER) — a private economic research group — determines when recessions begin and end. A recession begins just after the economy peaks and ends when it bottoms out, but the peak and trough can only be determined months after the fact.
- On September 20, 2010, the NBER announced that the recession that began in December 2007 had ended in June 2009, 18 months after it started. Why it took the NBER 15 months to determine the recession was over is a bit unclear, but in any case this recession was the longest since World War II. (The recessions of 1973-1975 and 1981-1982 — see chart at right — were both 16 months.)
- Many people think the NBER has lost its mind. In fact, recent polls find that around 80% of Americans think the economy is *still* in a recession. But the NBER knew how its announcement was likely to be received. It wrote, "In determining that a trough occurred in June 2009, the committee did not conclude that economic conditions since that month have been favorable or that the economy has returned to operating at normal capacity. Rather, the committee determined only that the recession ended and a recovery began in that month. The trough marks the end of the declining

phase and the start of the rising phase of the business cycle. Economic activity is typically below normal in the early stages of an expansion, and it sometimes remains so well into the expansion."

- We don't know to what extent, if any, the NBER committee considers rail traffic, but if they do they might have looked at something like the chart on the bottom of page 2 (showing unadjusted carloads on U.S. railroads) or page 14 (showing seasonally adjusted carloads on U.S. railroads). Both show a bottoming out of rail traffic in May 2009 and the start of a clear upturn in June 2009. Rail cars in storage peaked in June 2009 as well (see page 29). Several other economic indicators we follow in *Rail Time Indicators* had inflection points around that time too — *e.g.*, industrial production (see page 20) and capacity utilization (page 21).
- Each month, *The Wall Street Journal* surveys around 50 leading economists. In the most recent survey, released September 13, the panel predicted that annualized GDP growth wouldn't exceed 2.7% until at least Q3 2011 and that the unemployment rate would still be 8.9% in December 2011. The panel collectively put just a 22% chance on another recession in the next year.
- In its October 2010 economic outlook, the National Association of Business Economists (NABE) predicted that GDP would grow 2.6% in 2010 and 2011.

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 Q3 2010 GDP on October 29. Click here for more on the latest *WSJ* survey of economists. Click here for the September 20 statement from the NBER on its decision that the recession ended in June 2009.

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.

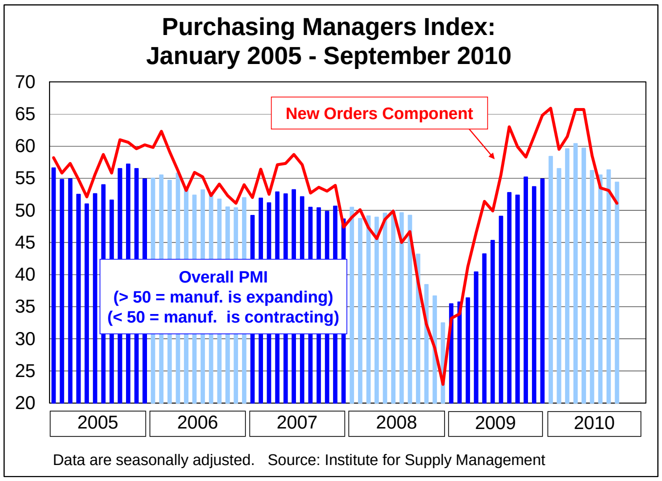
What is it and why is it important?

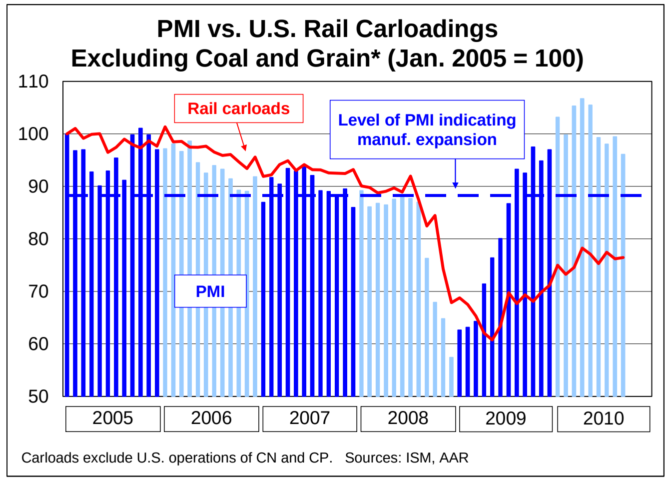
- The PMI combines data on new orders, inventory, production, supplier deliveries, and employment. It is based on a survey of several hundred supply managers at manufacturers throughout the country. Supply managers typically handle purchasing/procurement, inventory control and management, and physical 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. 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?

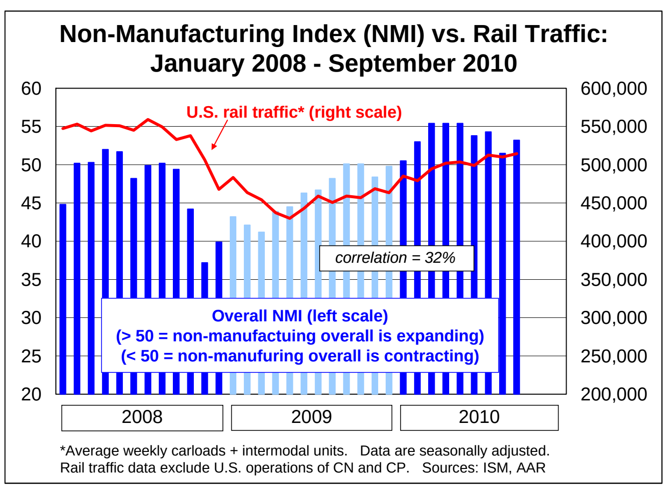
- **PMI fell to 54.4 in September 2010 from 56.3 in August 2010**. It had risen as high as 60.4 in April 2010 — higher than any month since June 2004 — but has now fallen in four of the five months since then.
- The **new orders** component of PMI **fell to 51.1 in September 2010, down from 53.1 in August 2010** and its **fourth straight decline**.
- What the ISM said about the September PMI: "While the headline number shows relative strength this month as the PMI reading of 54.4 percent is still quite positive, the overall picture is less encouraging. ... Production is currently growing at a faster rate than new orders, but it

typically lags and would be expected to weaken further in the fourth quarter. Manufacturing has enjoyed a stronger recovery than other sectors of the economy, but it appears that weaker growth is the expectation for the fourth quarter. Both the Inventories and Backlog of Orders Indexes are sending strong negative signals of weakening performance in the sector."





- One possible reaction to the September PMI report is that the decline in PMI in recent months is no big deal. The theory here is that when an economic recovery begins, it makes sense for the PMI to rebound quickly as inventory liquidation ends and inventory restocking resumes; as restocking runs its course, PMI moderates to a lower, more sustainable, but still-expansionary level. An alternative and more extreme reaction is that we should all buy gold and run for the hills because a declining PMI (especially the new orders component) indicates that manufacturing, which was leading the recovery, is running out of steam and there's nothing to take its place.
- Whichever view is closer to being correct, it seems clear that a PMI around 60 — its level in March through May this year — was unsustainable given everything else going on in the economy. The chart above right shows that the previously close correlation between PMI and rail traffic, which began weakening in the spring of 2009, may be tightening again.
- If manufacturing is going to be growing more slowly in the months ahead, then other sectors will have to take over if the recovery is to continue. Services are the obvious choice, since they account for around two-thirds of GDP and around 80% of private-sector employment. As we noted in our August 2010 report, the Institute for Supply Management also produces a Non-Manufacturing Index (NMI) focusing on service industries. The chart at right shows the NMI since January 2008 (when it was first produced). Like the PMI, an NMI above 50 is supposed to indicate expansion; below 50 indicates contraction. The NMI rose in September following a decline in August. One month isn't a trend; we'll have to see if it continues.



- The line on the chart at right shows U.S. rail traffic. There isn't much correlation between rail traffic and the NMI — not terribly surprising since very few accountants, cashiers, doctors, and other service providers are transported by freight trains.

Where to go for more information:

- More details regarding the September PMI are here; more details on the September NMI are here. The October PMI will be released on November 1, 2010.

MANUFACTURING INVENTORIES AND SALES

Who releases it and when?

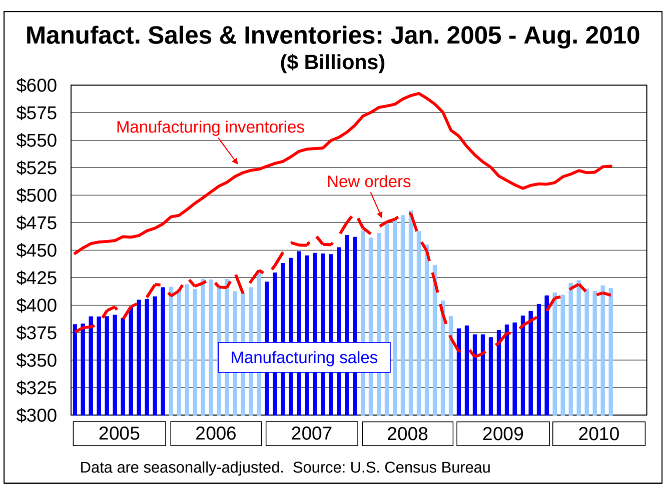
- The U.S. Census Bureau, near the beginning of each month, covering the month two months prior. (*E.g.*, the report released in early August has data covering June.)

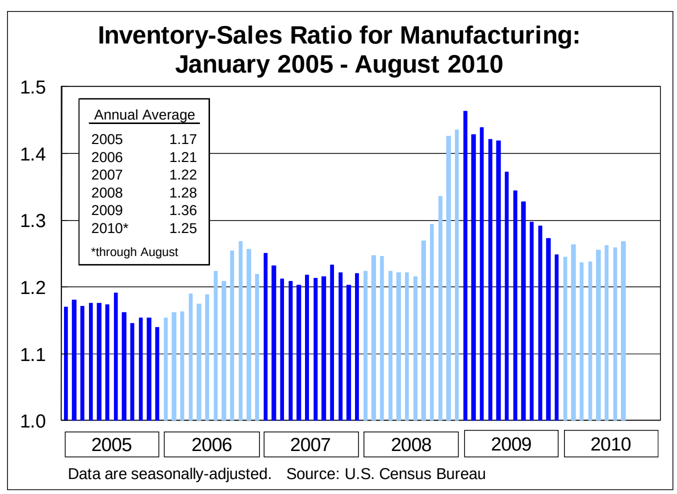
What is it and why is it important?

- 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 0.6% ($2.5 billion) in August 2010**, the third decline in the past four months, while **manufacturing inventories rose 0.1% ($677 million)**, their third straight monthly increase (see chart below left).
- The resulting inventory-sales ratio for manufacturing **rose 0.7%** (see chart below right) to 1.27. In other words, manufacturers have 1.27 months of inventory supply, given the current sales rate.





Where to go for more information:

- The Census Bureau's full report on manufacturing sales and inventories in August is here. Figures for September 2010 will be released on November 3, 2010.

INDUSTRIAL PRODUCTION

Who releases it and when?

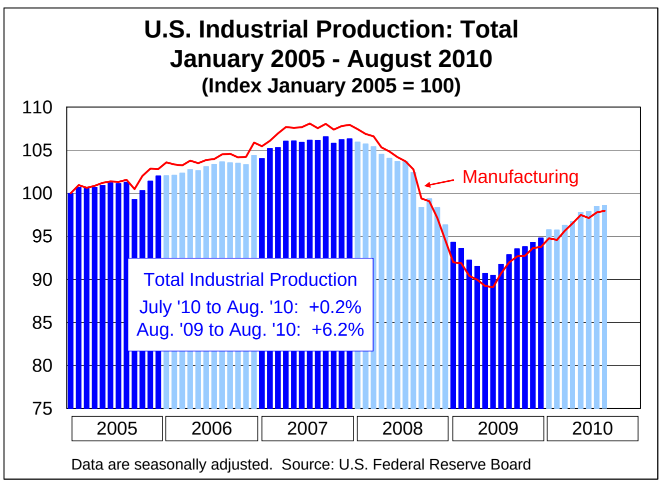
- The U.S. Federal Reserve Board, around the middle of each month.

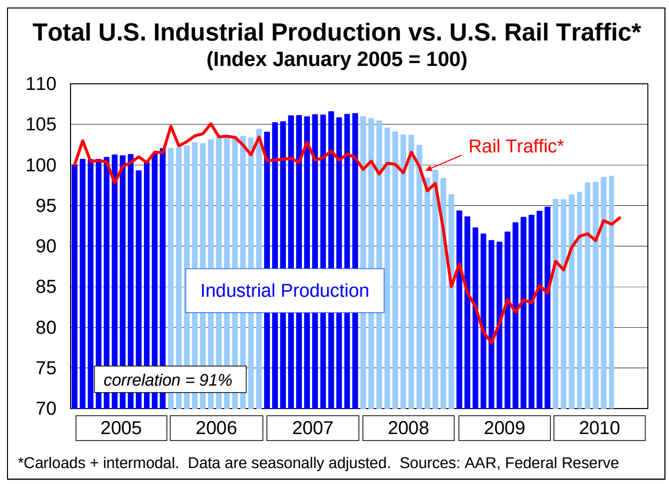
What is it and why is it important?

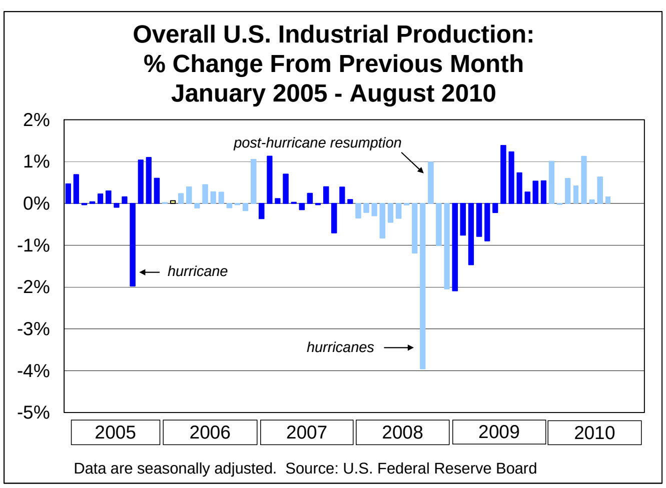
- Industrial production figures are based on the monthly raw volume of goods produced by U.S. industrial firms such as factories, mines, and electric utilities. The industrial sector typically exhibits the most volatility in output during a business cycle.

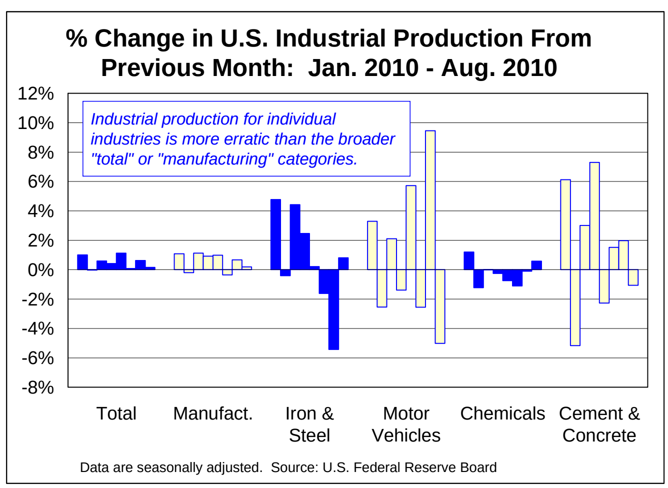
What are the latest numbers?

- Total **industrial production rose 0.2% in August 2010 from July 2010**, down from a 0.6% increase the month before. (The 0.6% increase in July 2010 was a downward revision to what was originally reported last month as a 1.0% increase. The Fed blames the revision on newly available data for a few manufacturing industries.)
- Including August, industrial production has risen 13 out of the past 14 months (there was a tiny decrease in February 2010), though **August's increase was the second smallest gain over the 14 months.** Industrial production was 6.2% higher in August 2010 than in August 2009.
- M**anufacturing,** by far the biggest component of industrial production, also **rose 0.2% in August 2010** over July 2010, down from 0.7% in July 2010 over June 2010. (The 0.7% increase in July was a downward revision from the 1.1% gain the Federal Reserve originally reported.)









- A sharp increase in motor vehicle and parts production was the biggest factor behind July 2010's increase in industrial production, and a decline in that same category is the main factor behind the slower growth in industrial production in August. The chart on the bottom right of the previous page shows that the change in industrial production for specific industries (including autos) tends to be more erratic than the change in total industrial production or for manufacturing as a whole.

Where to go for more information:

- The Federal Reserve release on industrial production in August is <u>here</u>. September 2010 data will be released on October 18, 2010.

CAPACITY UTILIZATION

Who releases it and when?

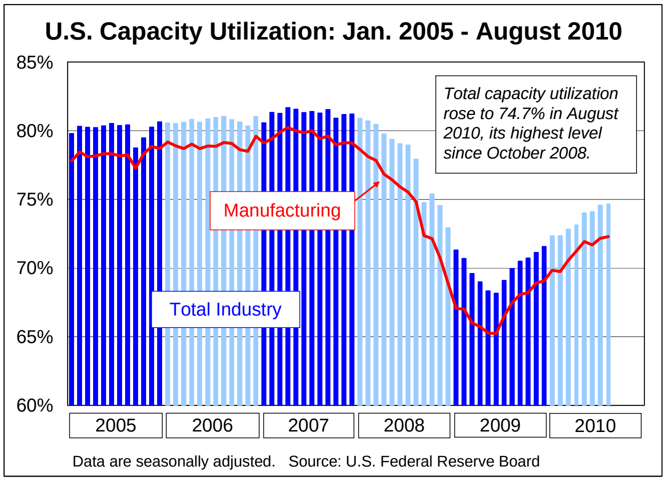
- The U.S. Federal Reserve Board, around the middle of each month.

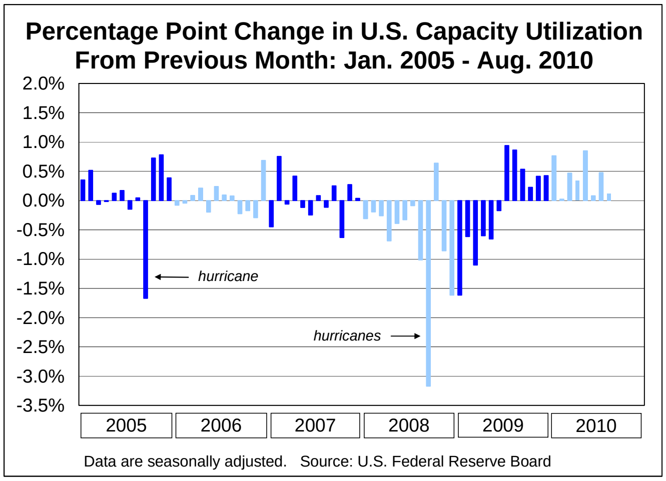
What is it and why is it important?

- 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. The Fed's data cover manufacturing, mining, and electric and gas utilities. Industry breakouts are also available.
- 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. 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 adds costs with no offsetting returns.

What are the latest numbers?

- Capacity utilization for total industry (mining, manufacturing, and gas and electric utilities) was **74.7% in August 2010**, **up from 74.6%** (originally reported last month as 74.8%) **in July 2010**. That's the highest it's been since October 2008 and the 14th straight monthly increase, though the increase in August was among the lowest during this period (see chart below right). Total capacity utilization was 70.0% in August 2009 and 77.9% in August 2008.





- **Capacity utilization for manufacturing rose to 72.3% in August 2010** from 72.2% in July 2010. It was 70.0% in August 2009. Overall capacity utilization in August 2010 was held down by a decrease in capacity utilization for motor vehicles from 65.1% in July to 61.9% in August.

Where to go for more information:

- The Federal Reserve release on capacity utilization in August is here. September 2010 data will be released on October 18, 2010.

NUMBER OF EMPLOYED PERSONS AND UNEMPLOYMENT RATE

Who releases it and when?

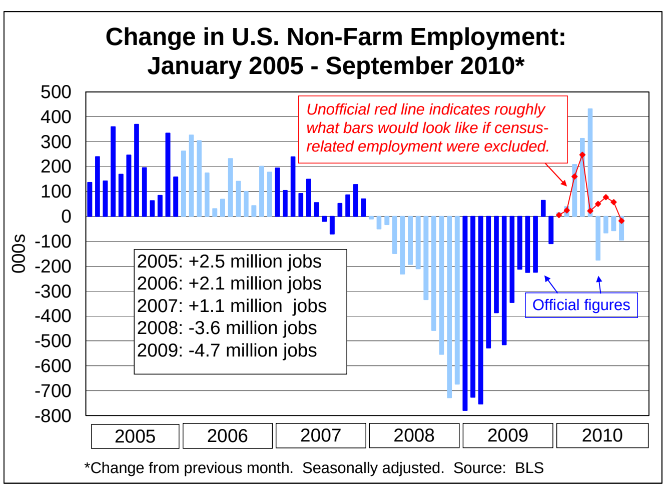
- U.S. Bureau of Labor Statistics (BLS) near the beginning of each month.

What is it and why is it important?

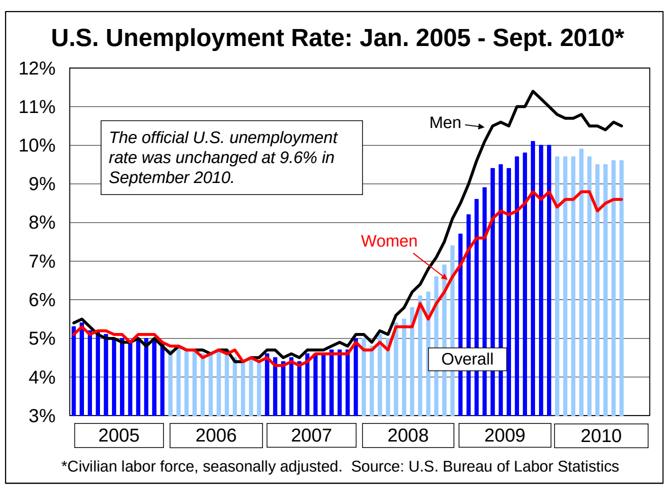
- The figures provide a snapshot of the strength of the U.S. labor market and are based on surveys of tens of thousands of households and businesses. In the United States, **a gain of 150,000 or more jobs** from one month to the next **is generally considered solid job growth**. Job growth of at least 100,000 is needed just to keep up with the typical growth in the labor force from one month to the next. Revisions in data from one month to the next can be large.
- 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?

- Total net U.S. **non-farm employment fell by 95,000 in September 2010**, the fourth straight decline and the biggest since June 2010. Once again, Census-related jobs affected the numbers. According to BLS, approximately 77,000 temporary Census 2010 workers were dropped from federal government payrolls in September. Without the "Census effect," job losses would have been more like 18,000 — still lousy, but quite not as lousy (see chart below left).
- **The unemployment rate remained unchanged at 9.6% in September 2010**.
- The private sector gained 117,000 jobs in July 2010, 93,000 in August 2010, and **67,000 in September 2010**. Private sector jobs have increased for nine straight months, but September's modest gains are again not nearly enough to signal a sustained, solid expansion or cause a big turnaround in consumer confidence.



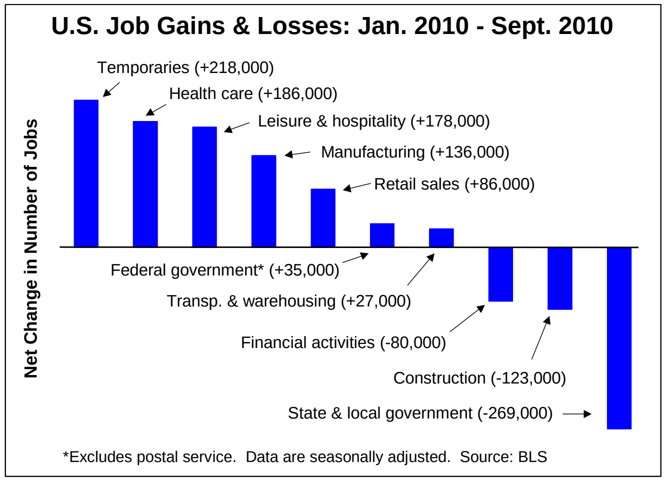
*Change from previous month. Seasonally adjusted. Source: BLS



*Civilian labor force, seasonally adjusted. Source: U.S. Bureau of Labor Statistics

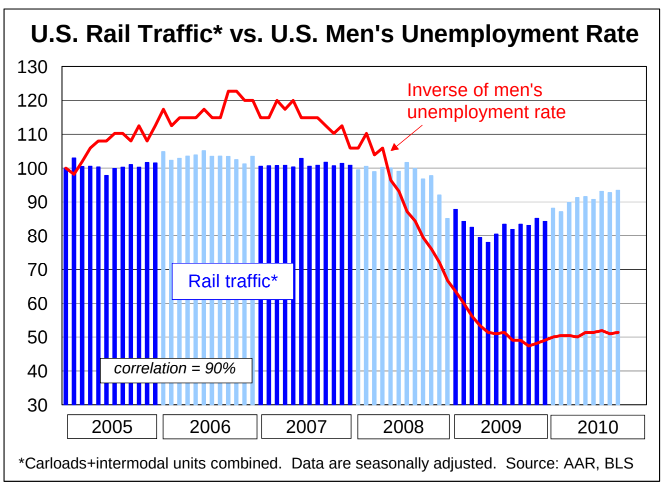
- State and local governments lost a combined 83,000 jobs in September. Since peaking in August 2008, as of September 2010 state and local government employment had fallen by 416,000, or 2.1%. Total private sector jobs peaked in December 2007. As of September 2010, they were down 7.6 million, or 6.6%.

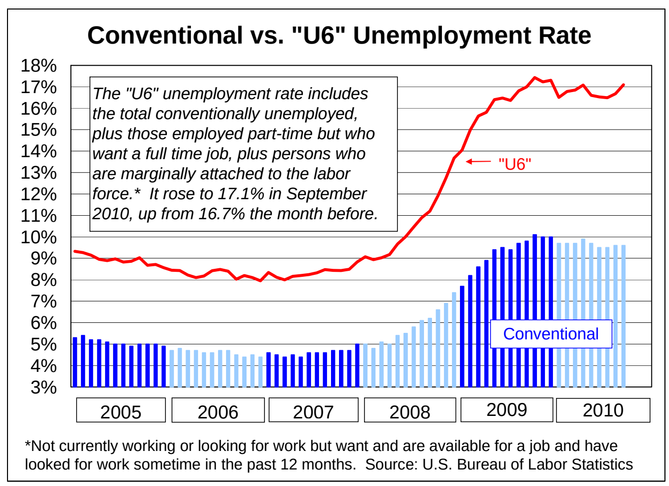
- The chart at right shows net job gains and losses by industry in the first nine months of 2010. We last showed this chart in our August 2010 report. At that time, federal government job gains led all other industries. That's not the case any more because most of the Census-related federal jobs reflected in the August chart have since disappeared.



- Health-care employment exceeded manufacturing employment for the first time in September 2008. Since then, health care jobs have increased in 24 out of 24 months, while manufacturing jobs have increased in just 7 of those months. As of September 2010, health care jobs exceeded manufacturing jobs by 18%, or 2.2 million. Given that the only month in the past 10 years that health care jobs fell was July 2003, it's a good bet that manufacturing will never catch up.

- The correlation between the unemployment rate (especially the men's unemployment) and rail traffic remains strong, as the chart below left shows.





- Some analysts think the so-called "U6" unemployment rate is a better indicator of the true employment situation than the conventional unemployment rate. U6 equals the conventionally unemployed plus those working part time but who want a full time job, plus those who want a job but haven't been looking lately because they've become discouraged. In September 2010, the U6 rate was 17.1%, up from 16.7% in August 2010 and its highest since December 2009 (see chart above right). By and large, U6 tracks the conventional unemployment rate: when one starts going down, the other probably will too.

Where to go for more information:

- The BLS press release on the employment situation in September 2010 is here. Data for October 2010 will be released on November 5, 2010.

CLASS I FREIGHT RAILROAD EMPLOYMENT

Who releases it and when?

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

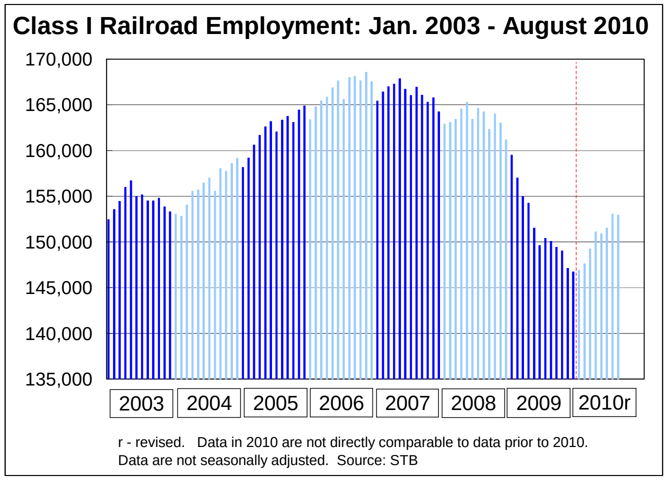
What is it and why is it important?

- 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 **fell by 121 employees** to 152,925 in August 2010 from 153,046 in July 2010.

- Railroad employment data for 2010 have been revised to account for a railroad that has begun including in its employee counts the employees from two smaller railroads it recently acquired. Beginning in January 2010, the bars in the chart at right are about 1,000-1,200 employees higher than they would otherwise have been (and what they were in earlier editions of *Rail Time Indicators*). This means that when comparing rail employment levels for any period in 2010 with any period prior to 2010, 1,000-1,200 of the difference is due to this revision.



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?

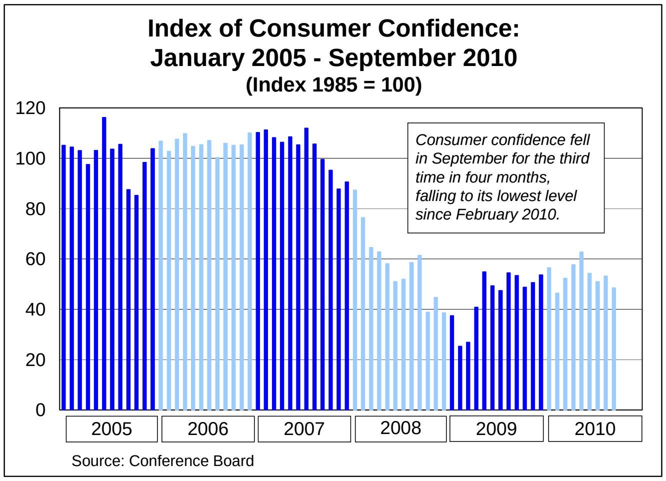
- The index is based on a monthly survey of 5,000 U.S. households. It is designed to gauge the financial health, spending power, and confidence of the average U.S. consumer. Respondents are asked about current conditions ("Present Situation Index") and their expectations for the next six months ("Expectations Index").

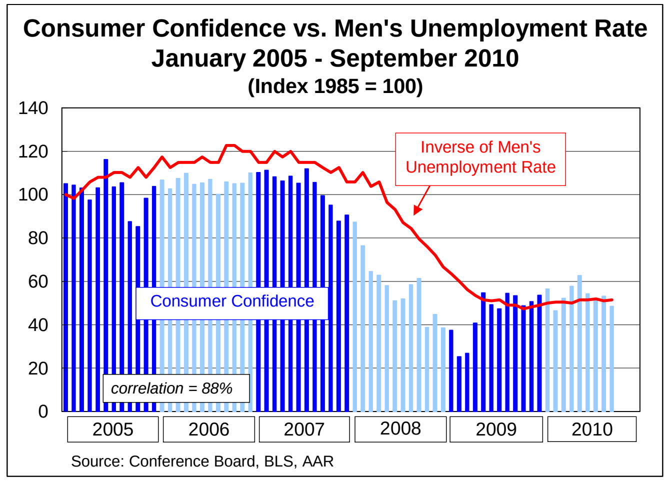
- The index is designed to predict future consumer spending, on the theory that the more confident consumers are about their job prospects, income, etc. the more likely they are to make purchases, especially big-ticket items.

What are the latest numbers?

- The consumer confidence index **fell to 48.5 in September 2010 from 53.2 in August 2010**. A decline wasn't necessarily unexpected, but a decline of this magnitude was. It was the third decline in the four months since consumer confidence stood at 62.7 in May 2010.

- For the first time in more than a year, the percentage of respondents who think conditions will worsen in the next six months (16.4%) exceeded the percentage of respondents who think conditions will improve in the next six months (14.9%).
- Spin-free comments from the Conference Board regarding the September index: "Overall, consumers' confidence in the state of the economy remains quite grim. And, with so few expecting conditions to improve in the near term, the pace of economic growth is not likely to pick up in the coming months."





- Every few months we show a chart (see above right) showing the correlation between consumer confidence and the unemployment rate: when unemployment goes up, consumer confidence goes down. Until unemployment improves, consumer confidence will almost certainly continue to be weak.

Where to go for more information:

- The Conference Board's press release on September's consumer confidence index is here. October's consumer confidence index will be released on October 26, 2010.

RETAIL SALES

Who releases it and when?

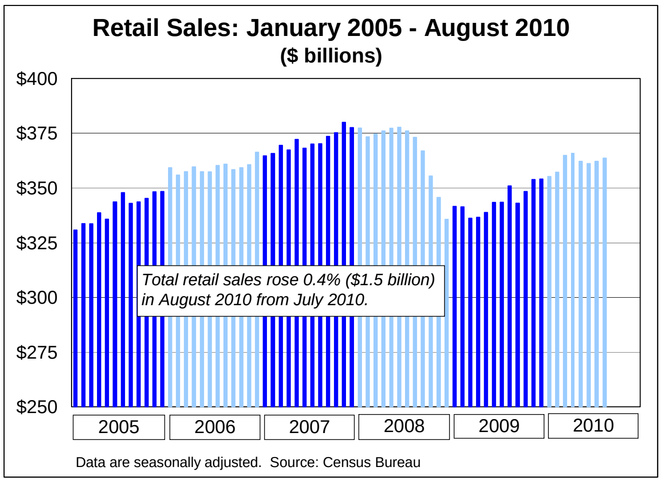
- The U.S. Census Bureau, around the ninth business day of each month.

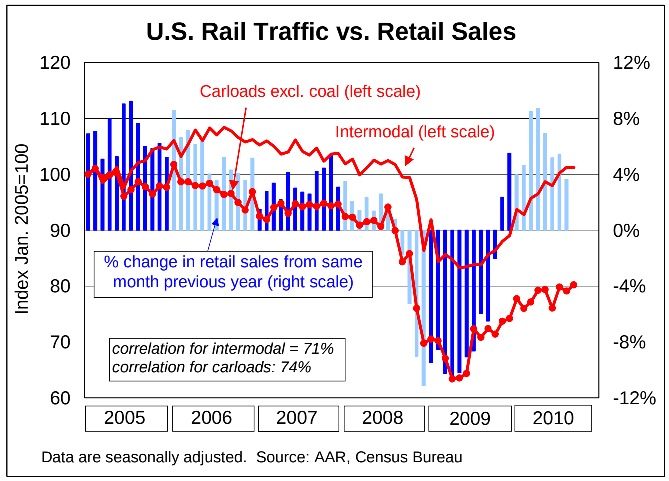
What is it and why is it important?

- 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.)
- 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 **rose 0.4% ($1.5 billion) in August 2010 from July 2010**, the second straight monthly gain but still below where they were in March and April of this year. In August, they were up 3.6% from last year at the same time (see chart below left).
- The increase in August wasn't terribly impressive, but was actually a bit higher than most economists expected. Most of August's increase was gasoline (up 1.9%, $696 million) and food and beverage stores (up 1.3%, $630 million).
- The chart below right shows the correlation between U.S. intermodal traffic and retail sales and between U.S. carload traffic excluding coal and retail sales. Perhaps surprisingly, the correlation is a bit stronger for carload traffic than for intermodal traffic, though in neither case is the correlation as strong as we've seen with other economic indicators.





Where to go for more information:

- The Census Bureau's press release on August 2010 retail sales is here. September retail sales will be released on October 15, 2010.

LIGHT VEHICLE SALES

Who releases it and when?

- The U.S. Bureau of Economic Analysis.

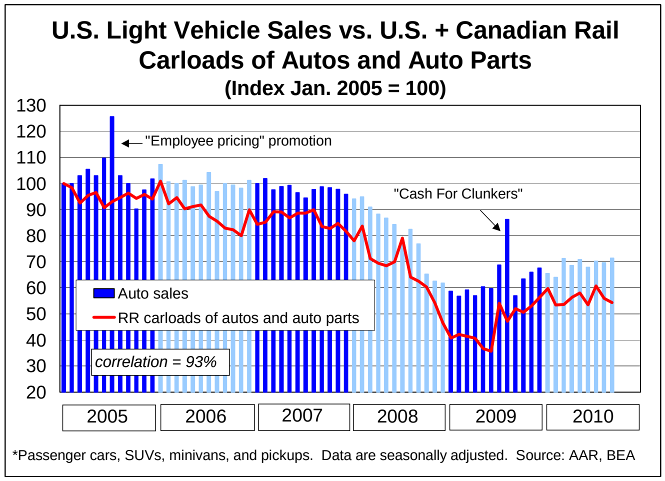
What is it and why is it important?

- 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 September 2010 were a seasonally-adjusted and annualized **11.7 million, up from 11.4 million in August 2010**. If you exclude August 2009 (the big cash-for-clunkers month, see chart top of next page), sales in September 2010 were the highest since September 2008. As is the case with housing starts (see next page), it's not much, but it's a start.

- Seasonally adjusted Canadian and U.S. rail carloads of autos and auto parts fell 3.0% in September 2010.



Where to go for more information:

- BEA data on auto sales are here.

HOUSING STARTS

Who releases it and when?

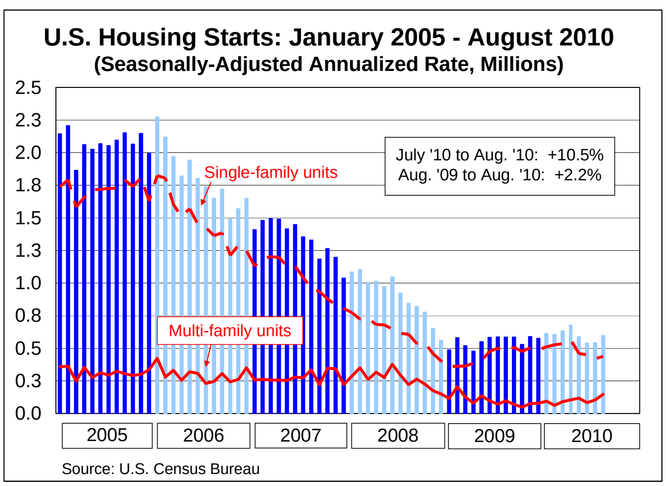
- U.S. Census Bureau, around the middle of each month.

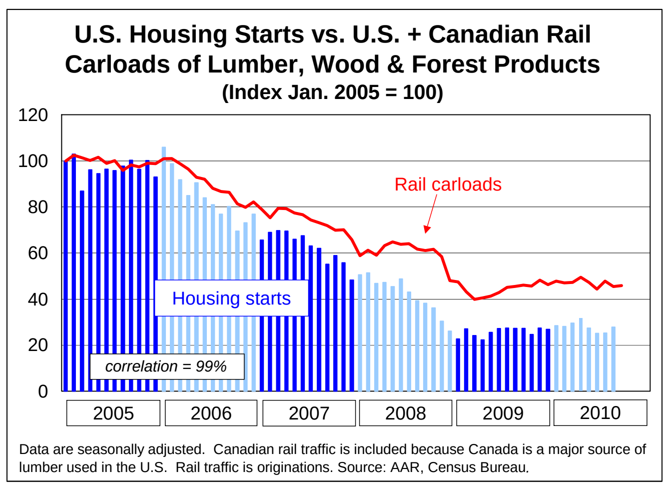
What is it and why is it important?

- 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 have historically been considered a “leading indicator” because construction growth usually picks up at the beginning of a business cycle. However, various factors affecting today’s housing market — including a huge oversupply of existing houses due to slow sales and widespread foreclosures — means that new construction is a lagging indicator this time around.

What are the latest numbers?

- **Housing starts rose 10.5% in August 2010** to an annualized and seasonally adjusted **598,000**, up from 541,000 in July 2010 and the highest level in four months. August 2010’s figure was 2.2% higher than August 2009.
- An executive at a major home builder recently stated the obvious when he said, “High unemployment and foreclosures have continued to present challenges for the national housing market.”





Where to go for more information:

- The Census Bureau’s press release on housing starts in August 2010 is here. September’s housing starts will be released on October 19, 2010.

CONSUMER PRICE INDEX (CPI)

Who releases it and when?

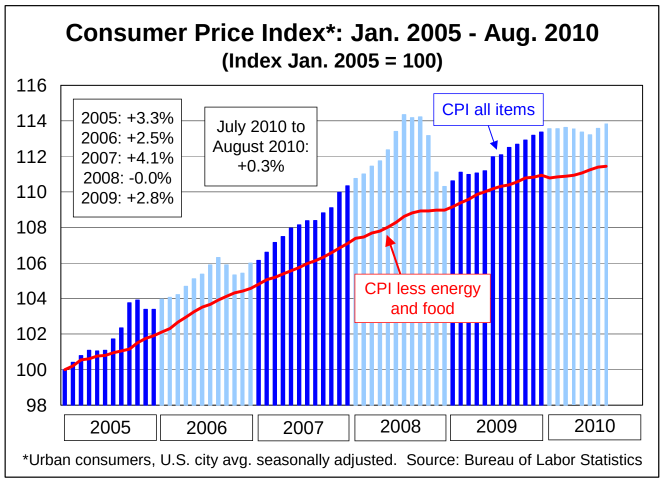
- U.S. Bureau of Labor Statistics (BLS), mid-month.

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?

- In August 2010, the **consumer price index** for all urban consumers (CPI-U) **rose 0.3%** on a seasonally adjusted basis for the second straight month. As of August, it was **up just 1.1%** on a **year-over-year basis**.
- "Core" inflation — CPI less food and energy — was flat in August 2010 over July 2010 and up 0.9% year-over-year.



Where to go for more information:

- The BLS press release on the August 2010 CPI is here. September's CPI will be released on October 15.

U.S. DOLLAR EXCHANGE RATE INDEX

Who releases it and when?

- The Federal Reserve Board, daily.

What is it and why is it important?

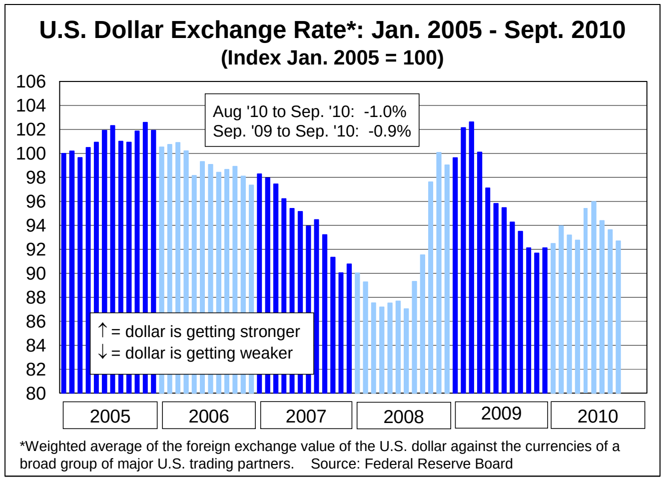
- An index comprised of a weighted average of the value of the U.S. dollar against the currencies of a group of major U.S. trading partners.
- An exchange rate is the **price of one currency against another.** A weaker U.S. dollar ("depreciation") means that U.S. imports become relatively more expensive and U.S. exports become relatively less expensive abroad. All else equal, that means fewer U.S. imports and more U.S. exports. 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 **fell 1.0% in September 2010**, its third straight monthly decline. It remains about where it was a year ago.

Where to go for more information:

- Exchange rate data from the Federal Reserve is here.



*Weighted average of the foreign exchange value of the U.S. dollar against the currencies of a broad group of major U.S. trading partners. Source: Federal Reserve Board

RAIL FREIGHT CARS IN STORAGE

Who releases it and when?

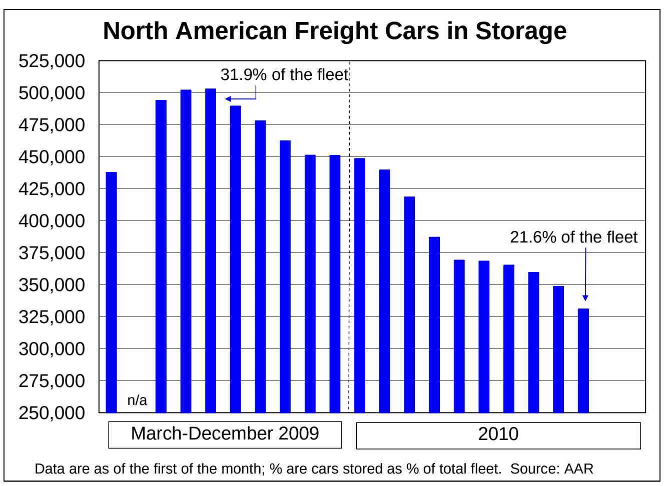
- The Association of American Railroads, each month in *Rail Time Indicators*.

What is it and why is it important?

- A freight car is "in storage" if it has had a loaded revenue move since 2005, but not in the past 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.
- 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.

What are the latest numbers?

- As of October 1, 2010, **331,074 freight cars — 21.6% of the total fleet — were in storage**, a decline of 17,638 cars from September 1, 2010. September's decline was the largest since April 2010. Since peaking in June 2009, nearly 172,000 freight cars have come out of storage.



Data are as of the first of the month; % are cars stored as % of total fleet. Source: AAR

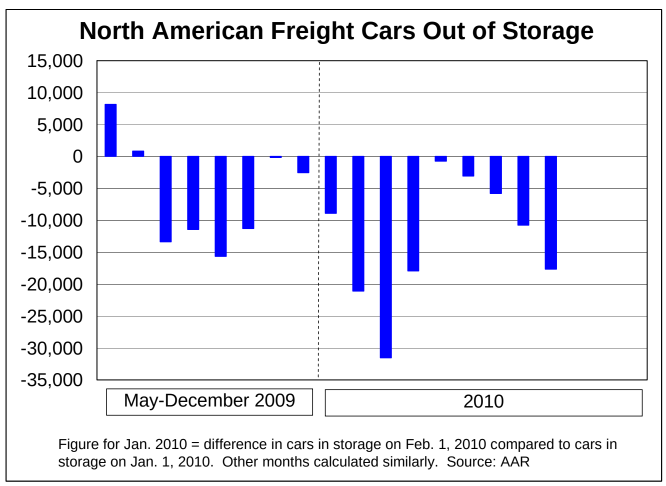


Figure for Jan. 2010 = difference in cars in storage on Feb. 1, 2010 compared to cars in storage on Jan. 1, 2010. Other months calculated similarly. Source: AAR

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.