Rail Time Indicators

A Review of Key Economic Trends
Shaping Demand for Rail Transportation

Policy & Economics Department
Association of American Railroads
Washington, DC

November 8, 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.

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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.

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SUMMARY OF MOST RECENT DATA

(green = generally positive news; red = generally negative news)

Economic Indicator	Most Recent Data
U.S. Freight Rail Traffic (p. 2)	Not Seasonally Adjusted: Carloads in Oct. 2010 ↑ **8.7%** over Oct. 2009, ↓ **7.9%** from Oct. 2008. Weekly average of 299,108 carloads in Oct. 2010 highest since Oct. 2008. Intermodal in Oct. 2010 ↑ **14.0%** over Oct. 2009, ↑ **1.2%** over Oct. 2008. Weekly average of 235,444 inter-modal units in Oct. 2010 highest since Oct. 2007 and 12th highest ever. Seasonally Adjusted: Carloads in October 2010 ↓ **0.5%** from September 2010; intermodal in October 2010 ↓ **0. 9%** from Sept. 2010.
Canadian Freight Rail Traffic (p. 4)	Not Seasonally Adjusted: Carloads in Oct. 2010 ↑ **9.0%** over Oct. 2009, ↓ **2.6%** from October 2008. Intermodal in October 2010 ↑ **15.0%** over October 2009 and ↑ **1.5%** over October 2008. Seasonally Adjusted: Carloads in October 2010 ↓ **0.6%** from Sept. 2010. Intermodal in October 2010 ↓ **1.6%** from Sept. 2010.
Gross Domestic Product (p. 16)	↑ **2.0%** in Q3 2010 according to the first preliminary estimate released October 29. Subject to potentially large revisions.
Purchasing Managers Index (p. 18)	↑ **to 56.9** in October 2010 from 54.4 in September 2010. New orders ↑ **to 58.9** in October 2010 from 51.1 in September 2010.
Manufacturing Inventories and Sales (p. 19)	Manufacturing sales ↑ **0.4%**, manufacturing inventories ↑ **0.7%**, and inventory-to-sales ratio ↑ **0.3%** in September 2010 from August 2010.
Industrial Production (p. 21)	↓ **0.2%** in September 2010 from August 2010, the first non-trivial decline in 15 months.
Capacity Utilization (p. 22)	↓ **to 74.7%** in September 2010 from 74.8% in August 2010. First decline since June 2009.
Employment (p. 24)	↑ **151,000** jobs in October 2010 over September 2010.
Unemployment Rate (p. 22)	**Unchanged at 9.6%** in October 2010 from September 2010, due in part to a decline in size of the labor force.
Class I Railroad Employment (p. 26)	↑ **1,169** to 154,094 employees in September 2010. Vast majority of increase was engineers and conductors who operate trains.
Consumer Confidence (p. 27)	↑ **to 50.2** in October 2010 over 48.6 in September 2010.
Retail Sales (p. 28)	↑ **0.6%** ($2.3 billion) in September 2010 over August 2010.
Light Vehicle Sales (p. 28)	↑ **4.3%** in October 2010 over October 2010 to an annualized 12.2 million.
Housing Starts (p. 29)	↑ **0.3%** in September 2010 to 610,000 from 608,000 in August 2010.
Consumer Price Index (p. 31)	↑ **0.1%** in September 2010 over August 2010; "core" inflation was **flat**.
Rail Freight Cars in Storage (p. 31)	↓ **to 318,275** on November 1, 2010 (20.8% of the fleet), down 12,799 cars from October 1, 2010.

U.S. AND CANADIAN FREIGHT RAILROAD TRAFFIC

Who releases it and when?

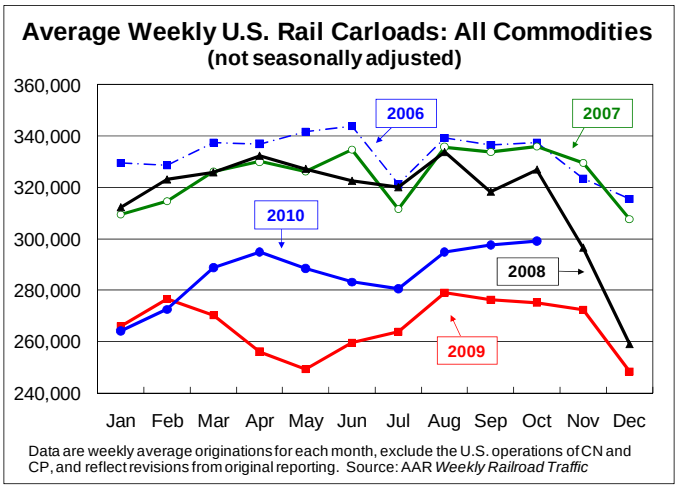
- The Association of American Railroads (AAR) releases its *Weekly Railroad Traffic* report every Thursday morning. The report contains rail traffic data for the previous week. Weekly data are aggregated into monthly figures in *Rail Time Indicators*. When comparing year-over-year rail traffic, comparisons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

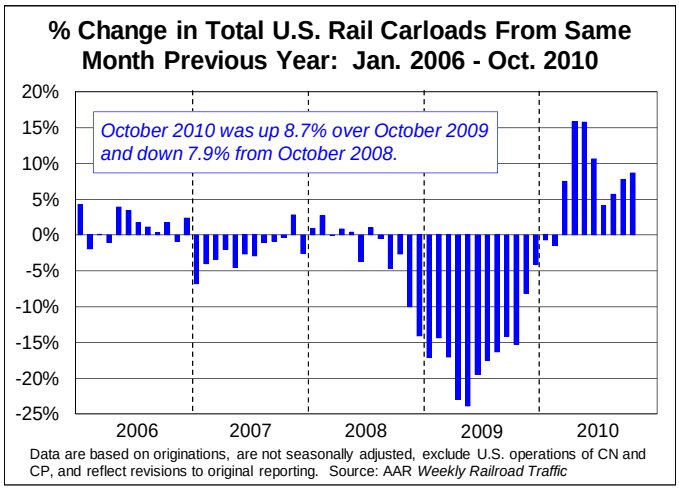
What is it and why is it important?

- 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 1,196,432 carloads in October 2010, an average of 299,108 carloads per week (see chart below left). That's **up 8.7% from October 2009** and **down 7.9% from October 2008** on a non-seasonally adjusted basis (see chart below right). The two highest-carload weeks in October were the third- and fourth-highest weeks for carloads so far in 2010.



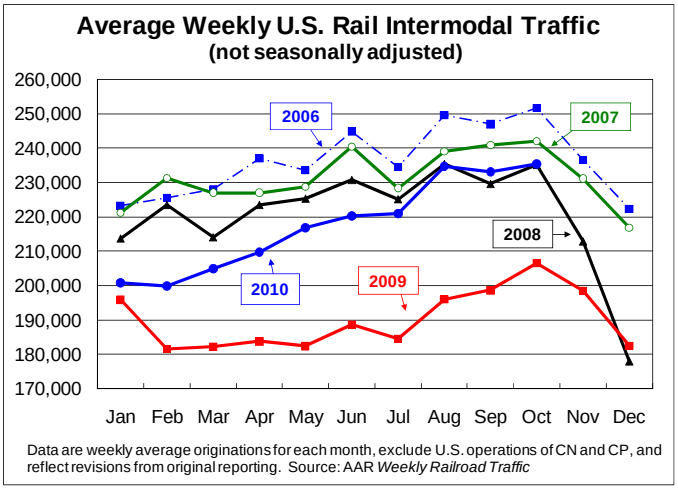


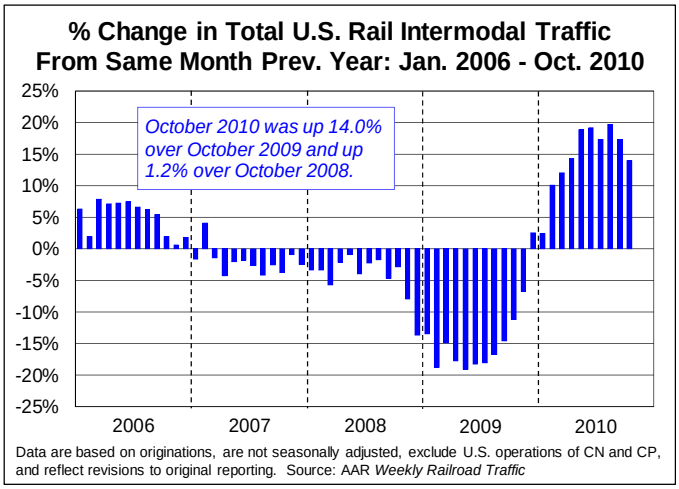
- October 2010's average weekly carloads were slightly higher than September 2010's, making October 2010 the new **highest-volume month since October 2008**. However, if Labor Day week were excluded, September 2010 would have been slightly higher than October 2010.
- That helps explain why, on a s**easonally adjusted basis, U.S. rail carloads were down 0.5% in October 2010 from September 2010** (see the top left chart on page 14).[1]
- On an unadjusted basis, **15 of the 19** commodity categories saw **carload gains in October 2010 compared to October 2009**, paced by coal (up 5.3%, or 26,977 carloads); metallic ores (up 190%, or 20,094 carloads); crushed stone, sand, and gravel (up 25.5%, or 14,990 carloads); and

[1] As a reminder, because of the nature of the AAR's weekly rail traffic data and the characteristics of rail traffic itself (*e.g.*, daily data are not available; some months have four weeks of rail data and some have five; holidays may be in one rail traffic month one year and in a different month the next; rail traffic varies depending on the day of the week), the seasonal-adjustment process for rail traffic may involve more complications than many other economic time series. Thus, seasonally adjusted rail traffic data should be considered a complement to, rather than a replacement for, unadjusted rail traffic data.

grain (up 11.9%, or 11,150 carloads). The tables and charts beginning on page 5 have more commodity detail.

- A few other comments on unadjusted October 2010 U.S. rail carload data:
  - ✓ Average weekly carloads of **motor vehicles and equipment**, **food products,** and **glass, clay and stone products** (mainly cement, ground earths or minerals, gypsum products, etc.) were all at their **highest since October 2008**.
  - ✓ Average weekly carloads of **primary metal products** (mainly iron and steel products) were their **lowest since January 2010**.
  - ✓ So far this year, carloads of **chemicals** have been extremely consistent — the weekly average for the highest-volume month so far in 2010 (April) is only 6% higher than the weekly average for the lowest volume month (July). (The comparable figure for all carloads combined is 13%.)
  - ✓ **Year-to-date carloads** through week 43 in 2010 (end of October) were 12.32 million, **up 7.3%** from the 11.48 million through week 43 in 2009. That's a solid improvement. However, as a reminder of how far carloads fell in the recession, the last time other than 2009 that rail carloads were as low through week 43 as they were in 2010 (roughly adjusting for changes in average carload capacity) was 1993.
- On a non-seasonally adjusted basis, October is usually the highest intermodal month of the year for U.S. railroads. That's the case again in 2010 (see chart below left). In October, U.S. railroads originated **941,775 intermodal trailers and containers**, an average of 235,444 per week — **up 14.0% over October 2009**, the **highest since October 2007**, and the **12th highest ever**.



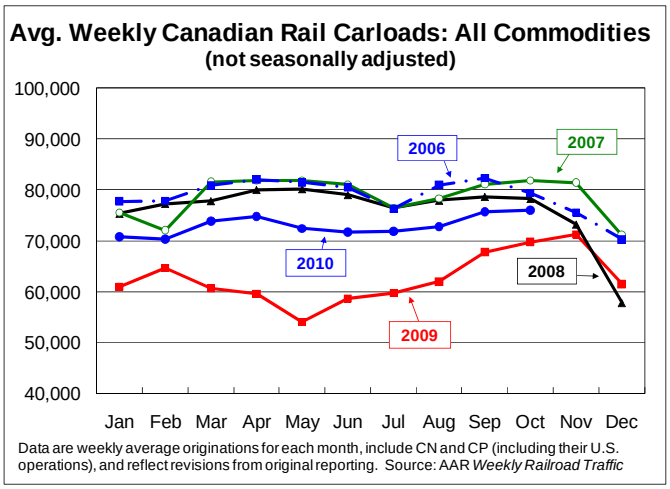


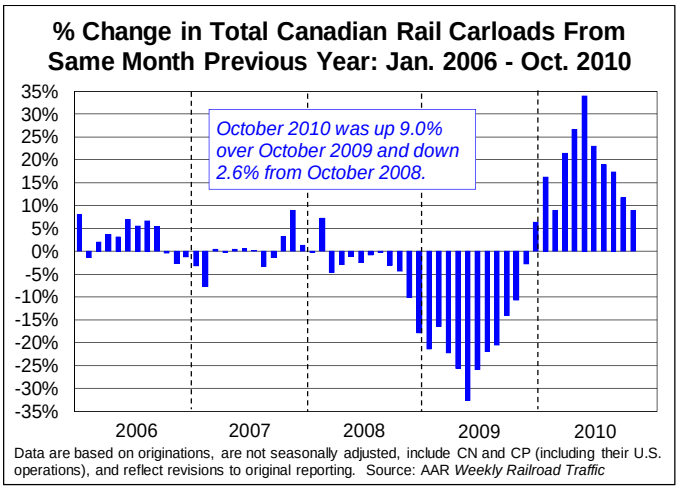
- The long-term trend toward containers for rail intermodal movements continued in October. U.S. railroads averaged **200,655 containers per week in October 2010**, **the highest weekly average ever**. **Trailers** shouldn't be forgotten, though — they averaged 34,779 per week in October 2010, their **highest level since December 2008**.
- As was the case with carloads, if you throw out the week with Labor Day, September 2010's weekly average would have been higher than October 2010's. That helps explain why **seasonally adjusted U.S. rail intermodal traffic was down 0.9% in October 2010 from September 2010** (see top right chart on page 14).
- Well over half of U.S. intermodal traffic consists of imports or exports, and growth in international trade is a major factor behind higher intermodal traffic so far this year. In the first nine months of 2010, import TEUs (twenty-foot equivalent units) at six of the largest U.S. ports — Los Angeles, Long Beach, Savannah, New York & New Jersey, Seattle, and Norfolk — rose 19.9% in

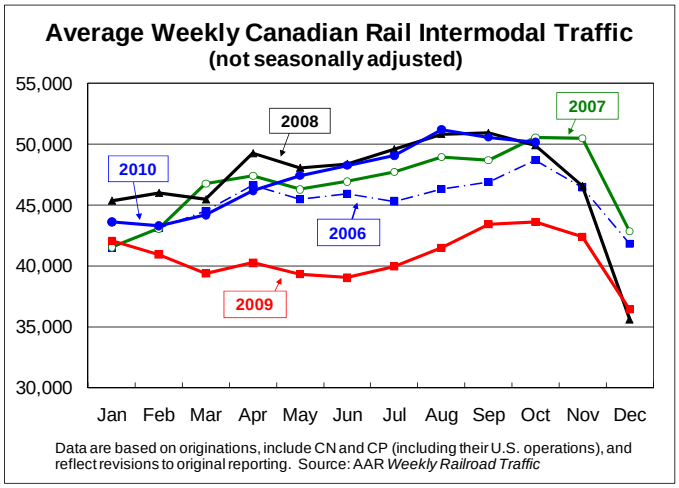
aggregate compared with the first nine months of 2009. Export TEUs at the same ports were up 15.5% in aggregate.

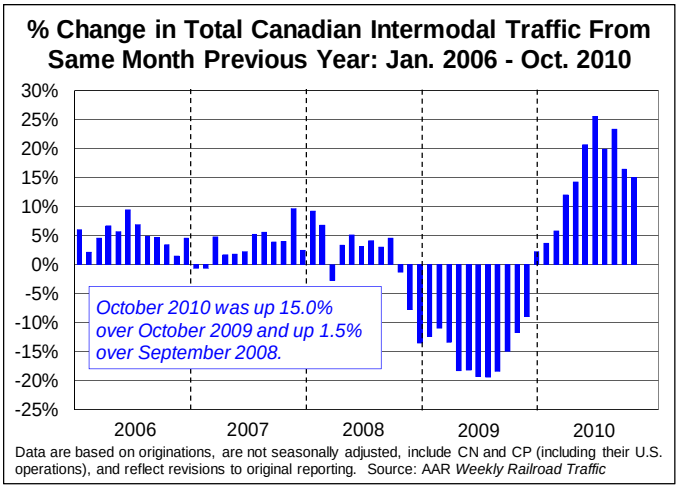
What are the latest numbers for Canadian railroads?

- On a non-seasonally adjusted basis, Canadian railroads (including their U.S. operations) originated 304,069 carloads of freight in October 2010, an average of 76,017 carloads per week. That's **up 9.0% over October 2009 and the highest weekly average for any month since October 2008**. In recent months, the percentage increase for 2010 over the same month in 2009 has been falling (it was as high as 34% in May 2010 — see top right chart below) in large part because traffic increases in the second half of 2009 mean the comparisons are tougher now than they were earlier this year. It's the same for U.S. railroads.
- Canadian **carloads** in October 2010 were **higher in 15 of the 19 commodity categories** compared with October 2009. The largest absolute gains were in chemicals (up 12,071 carloads, or 24.6%), metallic ores (up 6,051 carloads, or 14.1%), and motor vehicles and parts (up 1,839 carloads, or 9.7%. See page 6 for more commodity-level detail for Canadian railroads.
- Canadian railroads originated 200,622 **intermodal** trailers and containers in October 2010, an average of 50,156 intermodal units per week. That's **up 15.0% over October 2009 and up 1.5% over October 2008, but down slightly from August 2010 and September 2010**.
- **Seasonally adjusted total Canadian rail carloads in October 2010 were down 0.6% from September 2010**, while **seasonally adjusted intermodal volumes in October 2010 were down 1.6% from September 2010**. (See charts in the middle row of page 14.)









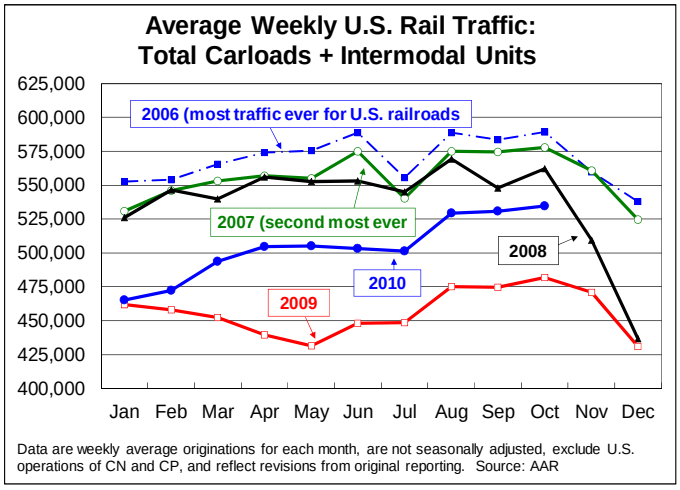
U.S. RAIL TRAFFIC: OCTOBER 2010*

(4 weeks ending October 30, 2010)

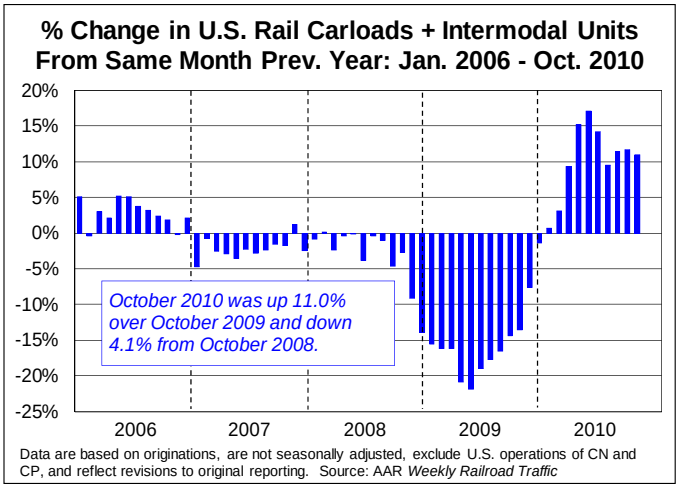
Commodity	Oct. '10	Oct. '09	Oct. '08	Difference '10-'09	Difference '10-'08	% Change '10-'09	% Change '10-'08
Agricultural & food products	**176,397**	**165,783**	**168,247**	**10,614**	**8,150**	**6.4%**	**4.8%**
Grain	104,668	93,518	95,419	11,150	9,249	11.9%	9.7%
Farm products excl. grain	4,209	3,890	4,253	319	-44	8.2%	-1.0%
Grain mill products (1)	34,071	36,127	33,735	-2,056	336	-5.7%	1.0%
Food products	33,449	32,248	34,840	1,201	-1,391	3.7%	-4.0%
Chemicals and petroleum	**137,447**	**128,585**	**133,966**	**8,862**	**3,481**	**6.9%**	**2.6%**
Chemicals	114,785	107,502	110,491	7,283	4,294	6.8%	3.9%
Petroleum products (2)	22,662	21,083	23,475	1,579	-813	7.5%	-3.5%
Coal	**536,705**	**509,728**	**602,529**	**26,977**	**-65,824**	**5.3%**	**-10.9%**
Forest products	**38,803**	**37,301**	**48,510**	**1,502**	**-9,707**	**4.0%**	**-20.0%**
Primary forest products (3)	6,088	6,476	8,974	-388	-2,886	-6.0%	-32.2%
Lumber & wood products	9,744	8,960	12,523	784	-2,779	8.8%	-22.2%
Pulp & paper products	22,971	21,865	27,013	1,106	-4,042	5.1%	-15.0%
Metallic ores and metals	**78,838**	**50,864**	**85,875**	**27,974**	**-7,037**	**55.0%**	**-8.2%**
Metallic ores (4)	30,672	10,578	32,472	20,094	-1,800	190.0%	-5.5%
Coke	13,377	11,544	15,004	1,833	-1,627	15.9%	-10.8%
Primary metal products (5)	34,789	28,742	38,399	6,047	-3,610	21.0%	-9.4%
Motor vehicles & parts	**55,720**	**52,876**	**63,463**	**2,844**	**-7,743**	**5.4%**	**-12.2%**
Nonmetallic minerals & prod.	**121,808**	**105,127**	**140,213**	**16,681**	**-18,405**	**15.9%**	**-13.1%**
Crushed stone, gravel, sand	73,687	58,697	83,893	14,990	-10,206	25.5%	-12.2%
Nonmetallic minerals (6)	17,727	21,746	22,181	-4,019	-4,454	-18.5%	-20.1%
Stone, clay & glass prod. (7)	30,394	24,684	34,139	5,710	-3,745	23.1%	-11.0%
Other	**50,714**	**50,466**	**56,540**	**248**	**-5,826**	**0.5%**	**-10.3%**
Waste & scrap materials (8)	31,694	30,801	33,643	893	-1,949	2.9%	-5.8%
All other carloads	19,020	19,665	22,897	-645	-3,877	-3.3%	-16.9%
TOTAL ALL CARLOADS	**1,196,432**	**1,100,730**	**1,299,343**	**95,702**	**-102,911**	**8.7%**	**-7.9%**
Trailers	139,116	128,508	195,561	10,608	-56,445	8.3%	-28.9%
Containers	802,659	697,833	735,110	104,826	67,549	15.0%	9.2%
TOTAL ALL INTERMODAL	**941,775**	**826,341**	**930,671**	**115,434**	**11,104**	**14.0%**	**1.2%**

(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*



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*

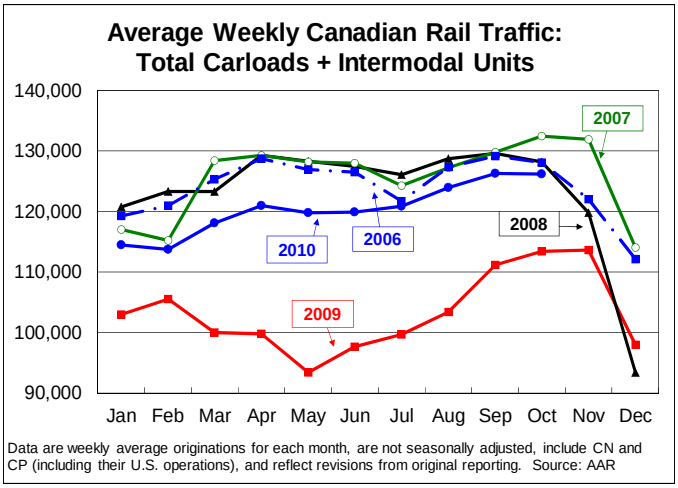
CANADIAN RAIL TRAFFIC: OCTOBER 2010*

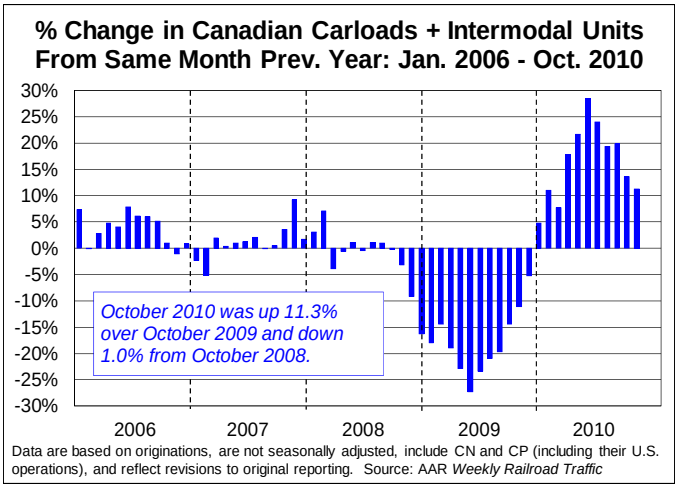
(4 weeks ending October 30, 2010)

Commodity	Oct. '10	Oct. '09	Oct. '08	Difference '10-'09	Difference '10-'08	% Change '10-'09	% Change '10-'08
Agricultural & food products	**67,647**	**67,503**	**70,794**	**144**	**-3,147**	**0.2%**	**-4.4%**
Grain	36,988	36,801	43,049	187	-6,061	0.5%	-14.1%
Farm products excl. grain	14,003	16,452	13,047	-2,449	956	-14.9%	7.3%
Grain mill products (1)	6,275	5,690	5,870	585	405	10.3%	6.9%
Food products	10,381	8,560	8,828	1,821	1,553	21.3%	17.6%
Chemicals and petroleum	**63,959**	**51,679**	**59,746**	**12,280**	**4,213**	**23.8%**	**7.1%**
Chemicals	61,164	49,093	57,458	12,071	3,706	24.6%	6.4%
Petroleum products (2)	2,795	2,586	2,288	209	507	8.1%	22.2%
Coal	**33,483**	**32,695**	**32,549**	**788**	**934**	**2.4%**	**2.9%**
Forest products	**28,583**	**27,203**	**34,540**	**1,380**	**-5,957**	**5.1%**	**-17.2%**
Primary forest products (3)	5,723	6,023	7,529	-300	-1,806	-5.0%	-24.0%
Lumber & wood products	8,228	7,729	10,439	499	-2,211	6.5%	-21.2%
Pulp & paper products	14,632	13,451	16,572	1,181	-1,940	8.8%	-11.7%
Metallic ores and metals	**59,852**	**52,073**	**63,938**	**7,779**	**-4,086**	**14.9%**	**-6.4%**
Metallic ores (4)	48,984	42,933	51,479	6,051	-2,495	14.1%	-4.8%
Coke	2,449	2,071	1,947	378	502	18.3%	25.8%
Primary metal products (5)	8,419	7,069	10,512	1,350	-2,093	19.1%	-19.9%
Motor vehicles & parts	**20,840**	**19,001**	**18,138**	**1,839**	**2,702**	**9.7%**	**14.9%**
Nonmetallic minerals & prod.	**20,797**	**19,836**	**23,072**	**961**	**-2,275**	**4.8%**	**-9.9%**
Crushed stone, gravel, sand	10,854	9,672	11,050	1,182	-196	12.2%	-1.8%
Nonmetallic minerals (6)	4,386	4,924	5,442	-538	-1,056	-10.9%	-19.4%
Stone, clay & glass prod. (7)	5,557	5,240	6,580	317	-1,023	6.0%	-15.5%
Other	**8,908**	**9,010**	**9,395**	**-102**	**-487**	**-1.1%**	**-5.2%**
Waste & scrap materials (8)	5,373	4,961	5,215	412	158	8.3%	3.0%
All other carloads	3,535	4,049	4,180	-514	-645	-12.7%	-15.4%
TOTAL ALL CARLOADS	**304,069**	**279,000**	**312,172**	**25,069**	**-8,103**	**9.0%**	**-2.6%**
Trailers	6,180	6,711	7,696	-531	-1,516	-7.9%	-19.7%
Containers	194,442	167,809	190,026	26,633	4,416	15.9%	2.3%
TOTAL ALL INTERMODAL	**200,622**	**174,520**	**197,722**	**26,102**	**2,900**	**15.0%**	**1.5%**

(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*





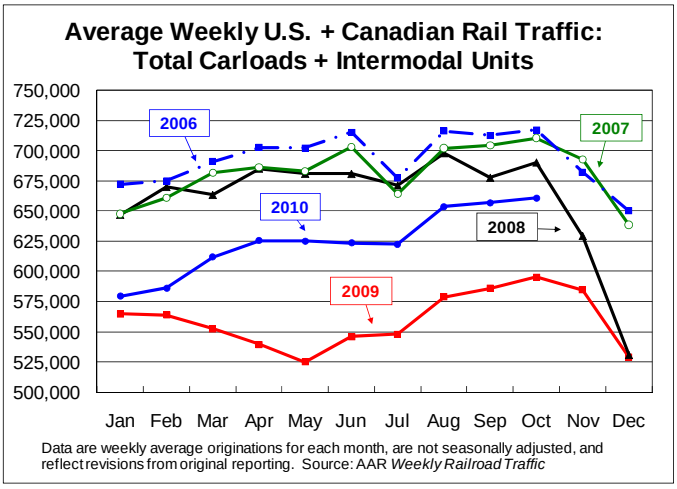
COMBINED U.S. AND CANADIAN RAIL TRAFFIC: OCTOBER 2010*

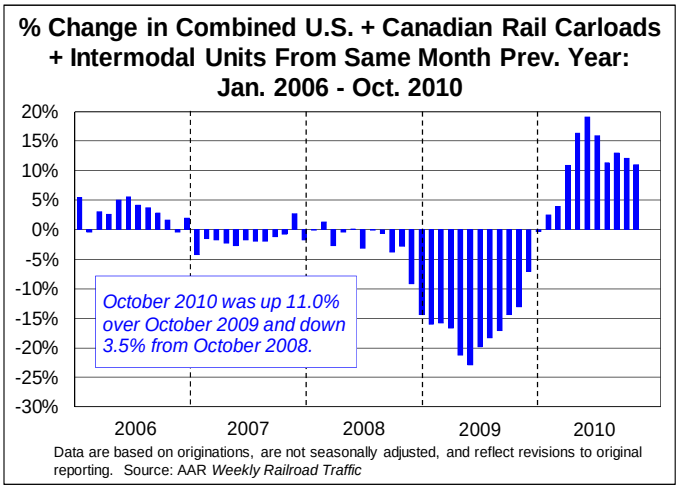
(4 weeks ending October 30, 2010)

Commodity	Oct. '10	Oct. '09	Oct. '08	Difference '10-'09	Difference '10-'08	% Change '10-'09	% Change '10-'08
Agricultural & food products	**244,044**	**233,286**	**239,041**	**10,758**	**5,003**	**4.6%**	**2.1%**
Grain	141,656	130,319	138,468	11,337	3,188	8.7%	2.3%
Farm products excl. grain	18,212	20,342	17,300	-2,130	912	-10.5%	5.3%
Grain mill products (1)	40,346	41,817	39,605	-1,471	741	-3.5%	1.9%
Food products	43,830	40,808	43,668	3,022	162	7.4%	0.4%
Chemicals and petroleum	**201,406**	**180,264**	**193,712**	**21,142**	**7,694**	**11.7%**	**4.0%**
Chemicals	175,949	156,595	167,949	19,354	8,000	12.4%	4.8%
Petroleum products (2)	25,457	23,669	25,763	1,788	-306	7.6%	-1.2%
Coal	**570,188**	**542,423**	**635,078**	**27,765**	**-64,890**	**5.1%**	**-10.2%**
Forest products	**67,386**	**64,504**	**83,050**	**2,882**	**-15,664**	**4.5%**	**-18.9%**
Primary forest products (3)	11,811	12,499	16,503	-688	-4,692	-5.5%	-28.4%
Lumber & wood products	17,972	16,689	22,962	1,283	-4,990	7.7%	-21.7%
Pulp & paper products	37,603	35,316	43,585	2,287	-5,982	6.5%	-13.7%
Metallic ores and metals	**138,690**	**102,937**	**149,813**	**35,753**	**-11,123**	**34.7%**	**-7.4%**
Metallic ores (4)	79,656	53,511	83,951	26,145	-4,295	48.9%	-5.1%
Coke	15,826	13,615	16,951	2,211	-1,125	16.2%	-6.6%
Primary metal products (5)	43,208	35,811	48,911	7,397	-5,703	20.7%	-11.7%
Motor vehicles & parts	**76,560**	**71,877**	**81,601**	**4,683**	**-5,041**	**6.5%**	**-6.2%**
Nonmetallic minerals & prod.	**142,605**	**124,963**	**163,285**	**17,642**	**-20,680**	**14.1%**	**-12.7%**
Crushed stone, gravel, sand	84,541	68,369	94,943	16,172	-10,402	23.7%	-11.0%
Nonmetallic minerals (6)	22,113	26,670	27,623	-4,557	-5,510	-17.1%	-19.9%
Stone, clay & glass prod. (7)	35,951	29,924	40,719	6,027	-4,768	20.1%	-11.7%
Other	**59,622**	**59,476**	**65,935**	**146**	**-6,313**	**0.2%**	**-9.6%**
Waste & scrap materials (8)	37,067	35,762	38,858	1,305	-1,791	3.6%	-4.6%
All other carloads	22,555	23,714	27,077	-1,159	-4,522	-4.9%	-16.7%
TOTAL ALL CARLOADS	**1,500,501**	**1,379,730**	**1,611,515**	**120,771**	**-111,014**	**8.8%**	**-6.9%**
Trailers	145,296	135,219	203,257	10,077	-57,961	7.5%	-28.5%
Containers	997,101	865,642	925,136	131,459	71,965	15.2%	7.8%
TOTAL ALL INTERMODAL	**1,142,397**	**1,000,861**	**1,128,393**	**141,536**	**14,004**	**14.1%**	**1.2%**

(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.

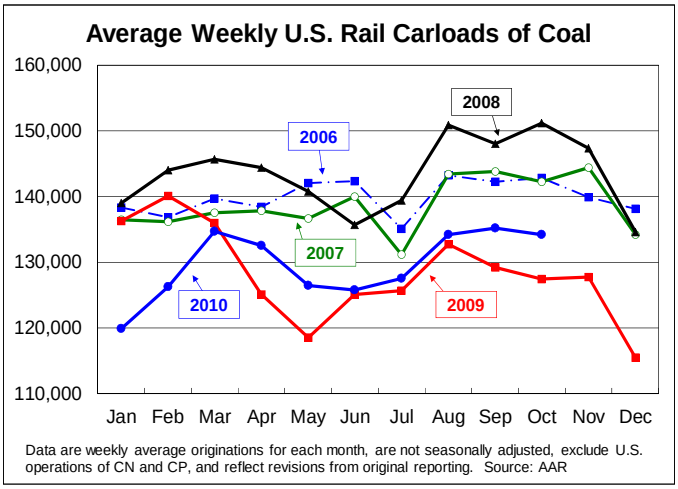
*Data are originations and are not seasonally adjusted. Source: AAR *Weekly Railroad Traffic*

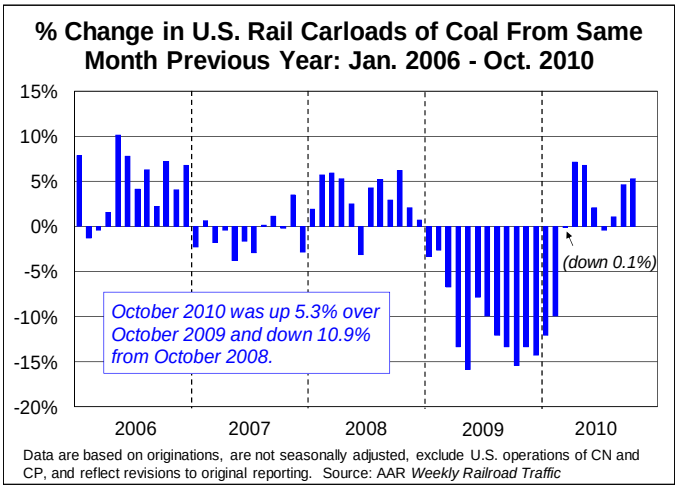


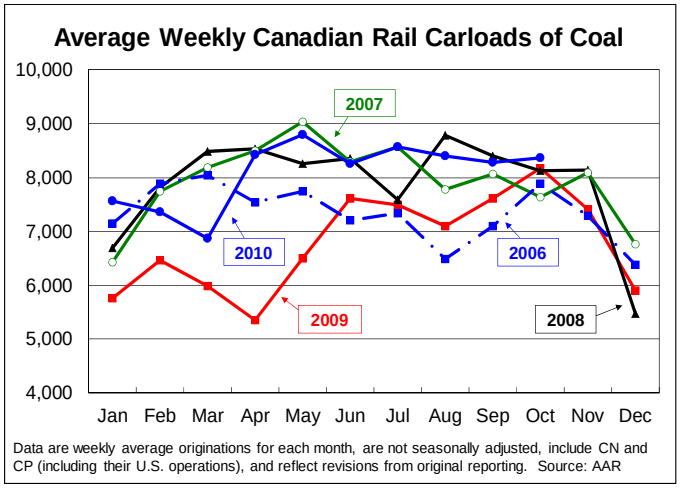


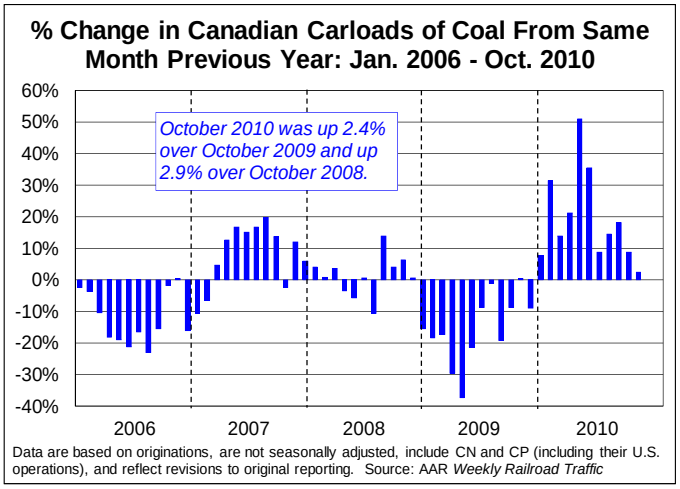
COAL

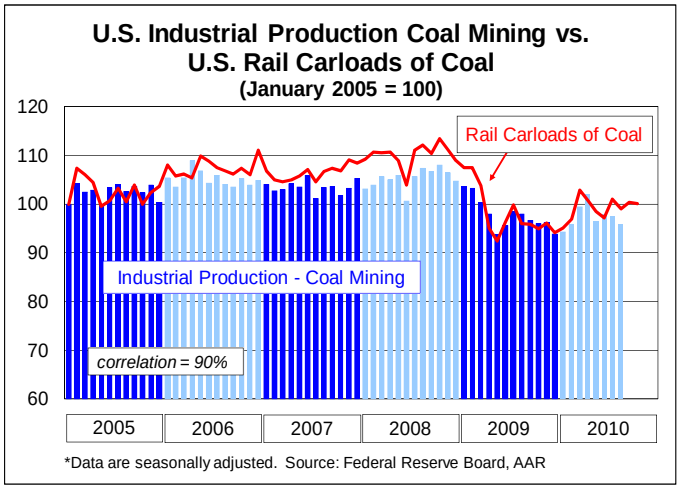
On a non-seasonally adjusted basis, U.S. railroads averaged 134,176 carloads of coal per week in October 2010, the **third highest weekly average of the year so far**. The chart on the bottom left shows the close correlation between the Federal Reserve Board's industrial production index for coal mining on one hand and rail carloads of coal on the other. The chart on the bottom right — a variant of a chart shown in the May 2010 *Rail Time Indicators* report — shows that utility coal stockpiles have come down from their record highs. (August is the most recent stockpile number available at this writing.)

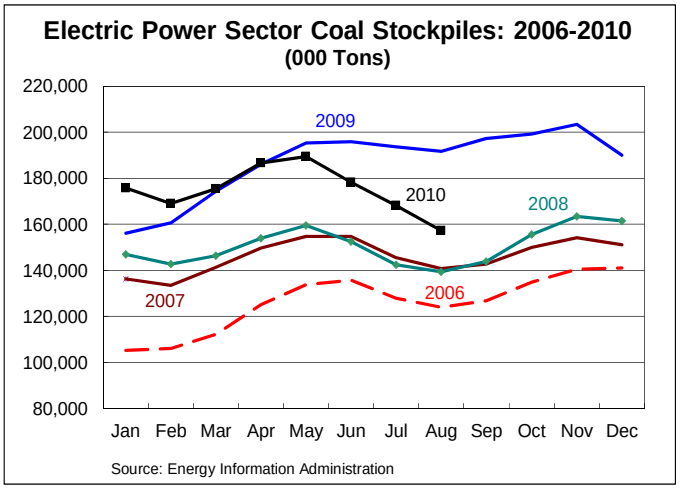






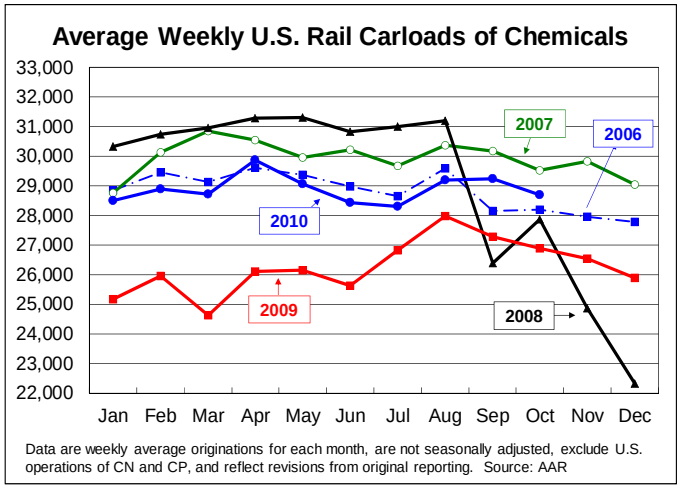


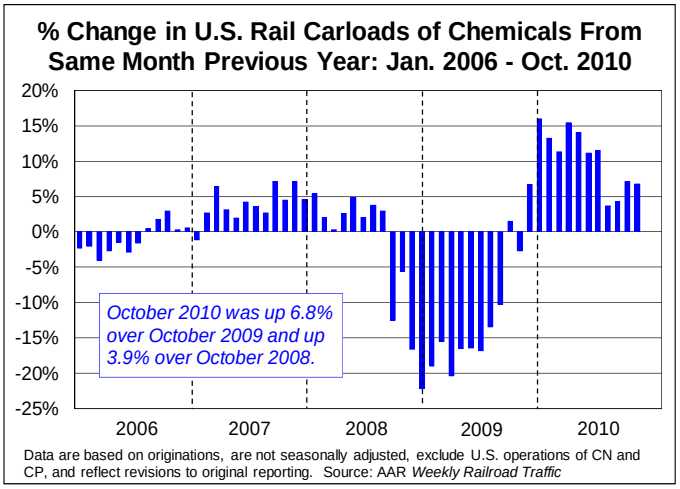


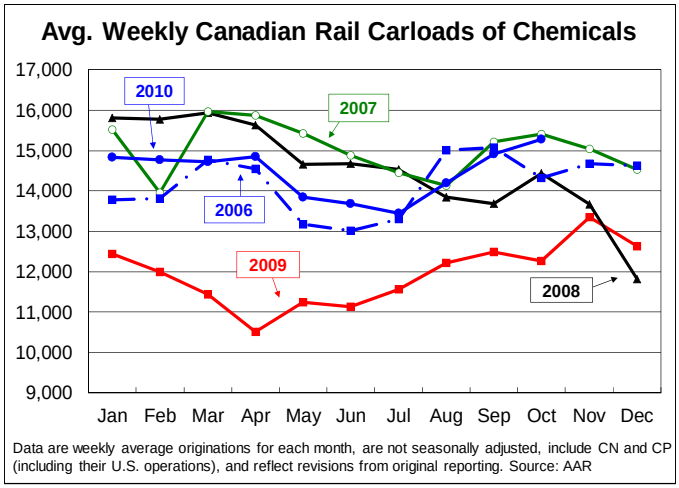


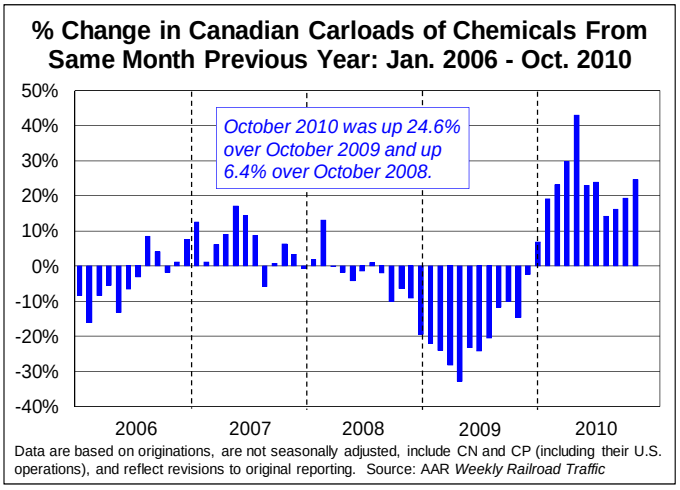
CHEMICALS

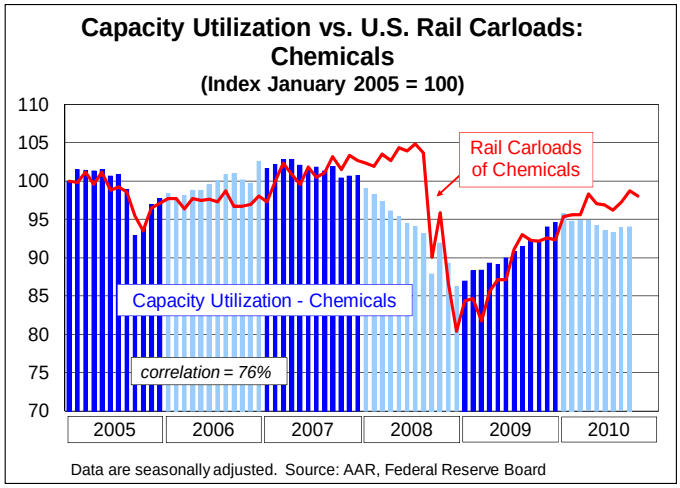
U.S. railroads originated 114,785 carloads of chemicals in October 2010, an average of 28,696 per week, up 6.8% over October 2009 and up 3.9% over October 2008. The charts on the bottom of this page show that U.S. capacity utilization for chemicals and chemical production have declined in recent months after peaking early in 2010. Canadian chemical carloads averaged 15,291 in October 2010, the highest of any month since April 2008.

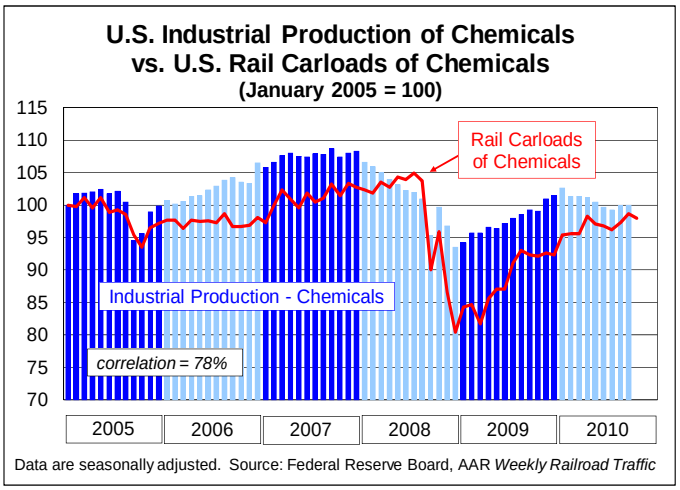






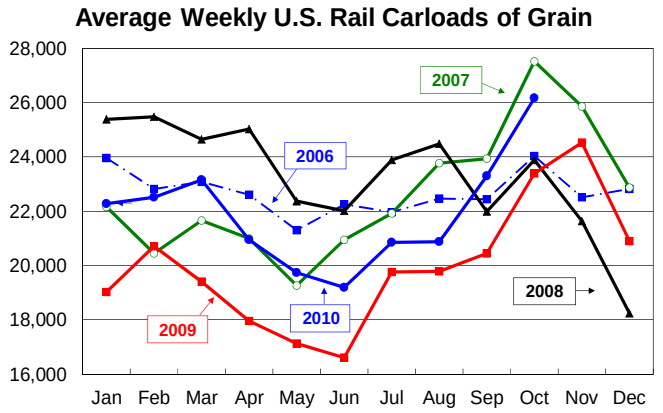




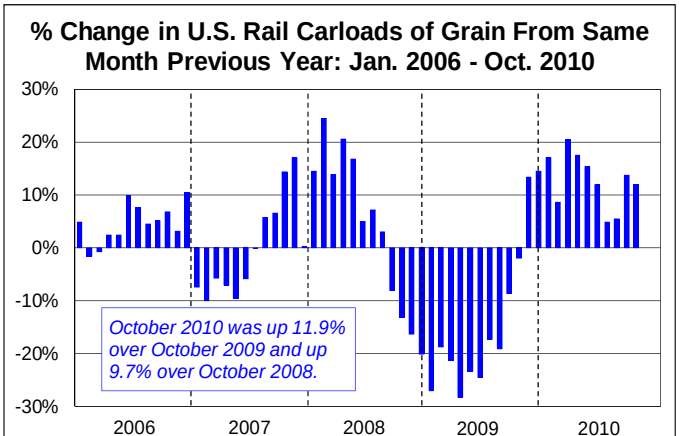


GRAIN

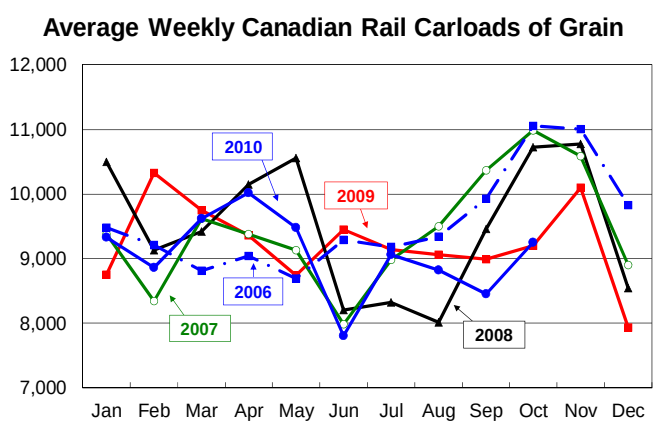
Average weekly grain carloads in October 2010 on U.S. railroads were 26,167, the highest monthly average since October 2007. Exports were a big reason for the increase in October (see chart bottom left). Railroads also move large amounts of grain mill products, which include such grain-related products as flour, corn syrup, corn starch, soybean meal, and animal feed. The chart on the bottom right shows U.S. rail carloads of grain mill products since 2006.



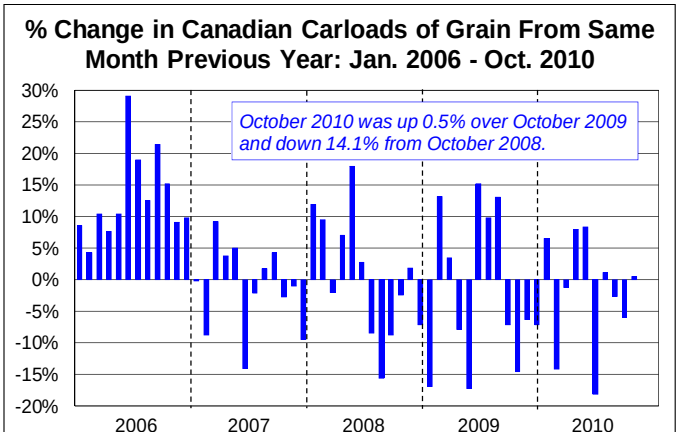
Data are weekly average originations for each month, are not seasonally adjusted, exclude U.S. operations of CN and CP, and reflect revisions from original reporting. Source: AAR



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



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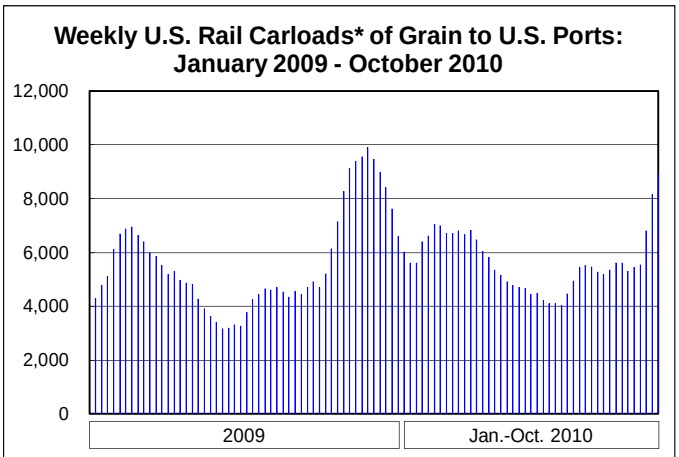
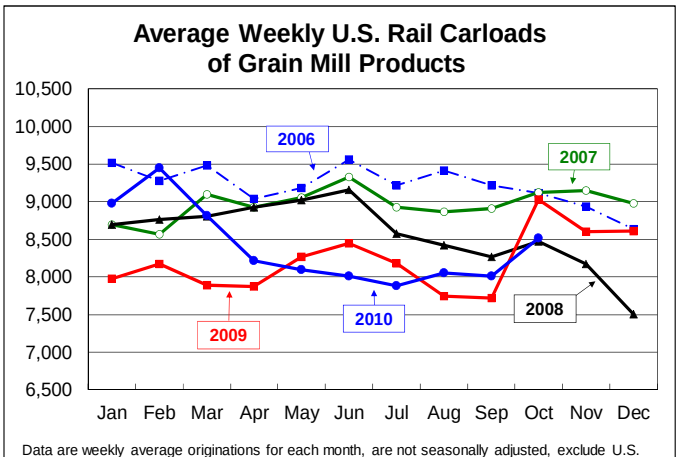
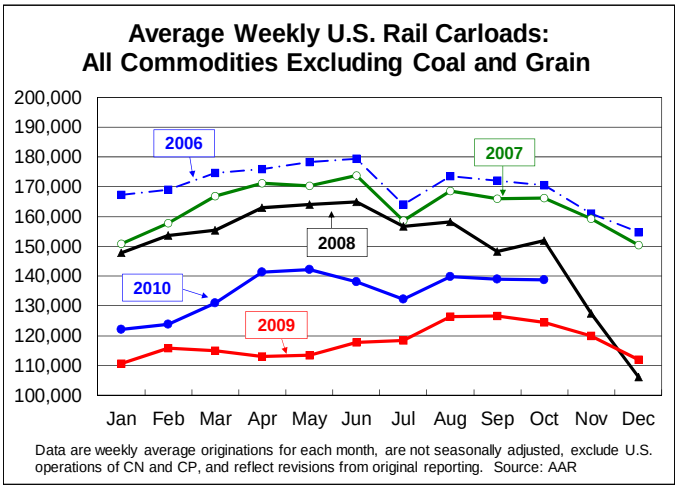


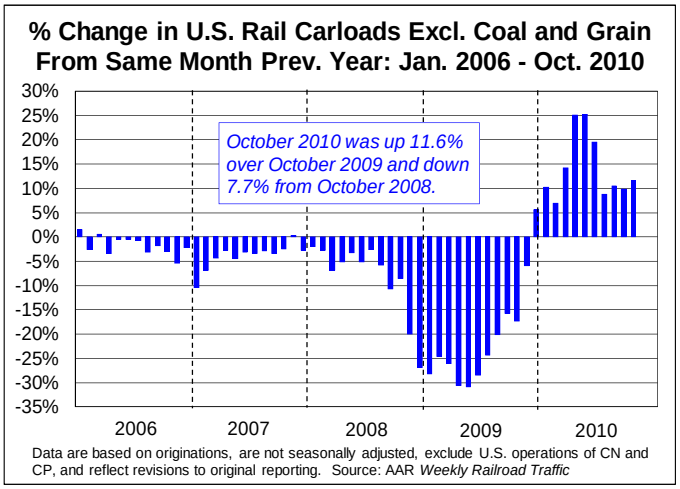
*Data are 3-week moving average and exclude cross border to Mexico. Source: USDA



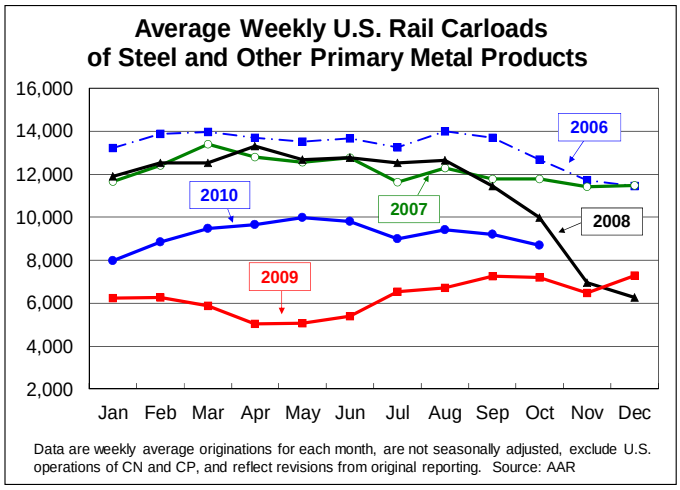
Data are weekly average originations for each month, are not seasonally adjusted, exclude U.S. operations of CN and CP, and reflect revisions from original reporting. Source: AAR

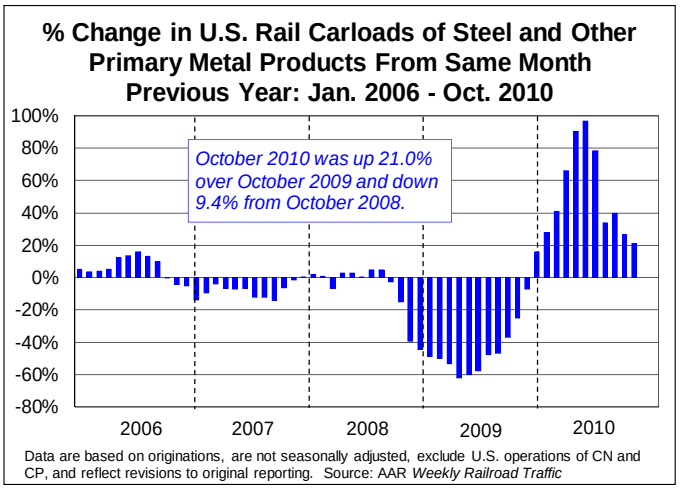
ALL COMMODITIES EXCLUDING COAL AND GRAIN



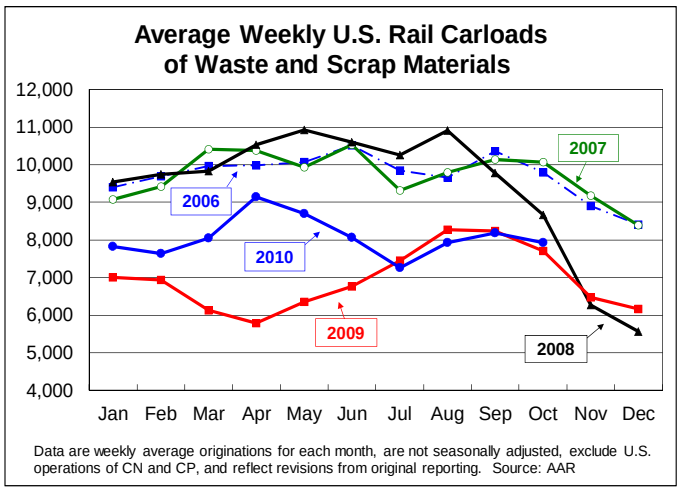


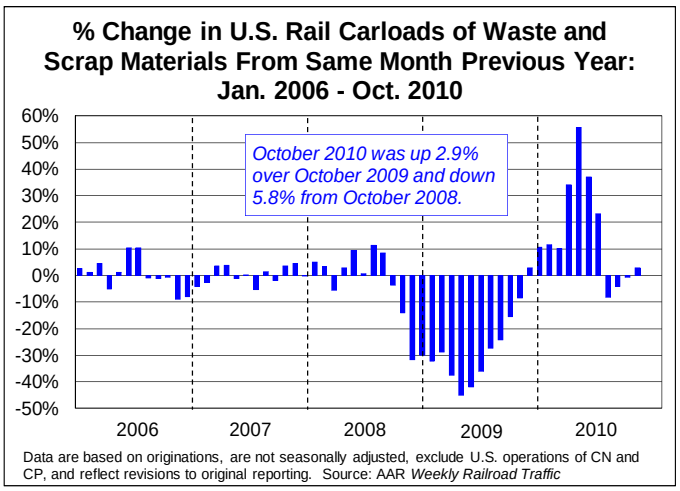
PRIMARY METAL PRODUCTS (MAINLY STEEL)



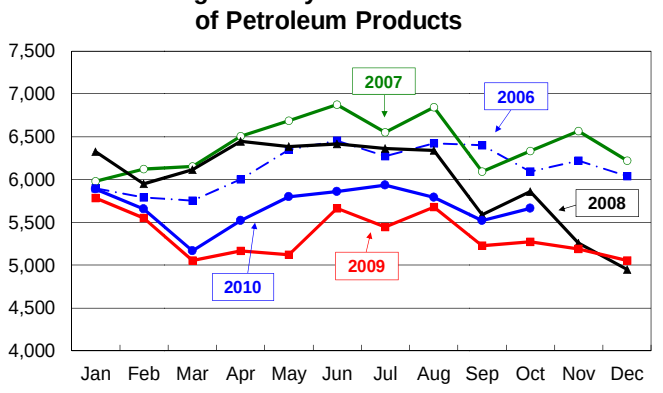


WASTE & SCRAP MATERIALS (SCRAP STEEL, SCRAP PAPER, CONSTRUCTION DEBRIS, ETC.)





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



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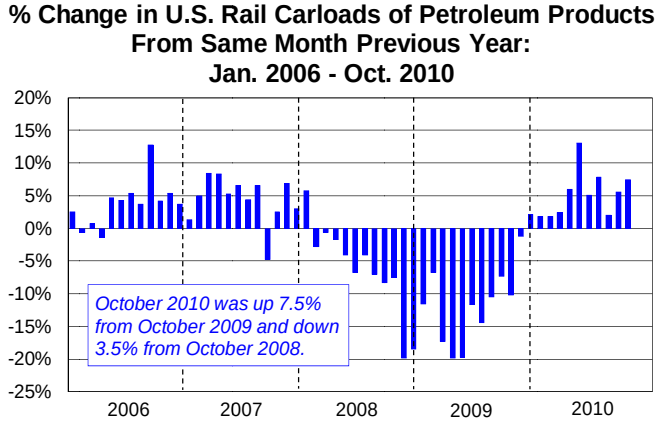
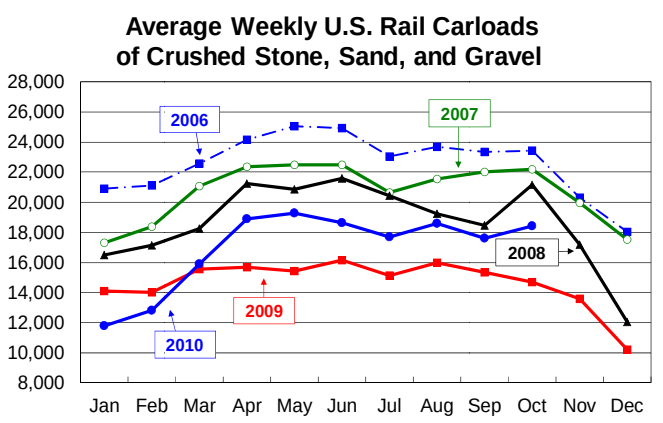
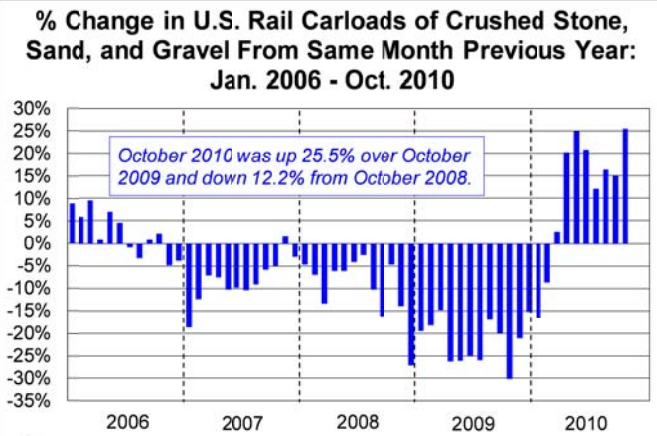


Data are based on originations, are not seasonally adjusted, exclude U.S. operations of CN and CP, and reflect revisions to original reporting. Source: AAR *Weekly Railroad Traffic*

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



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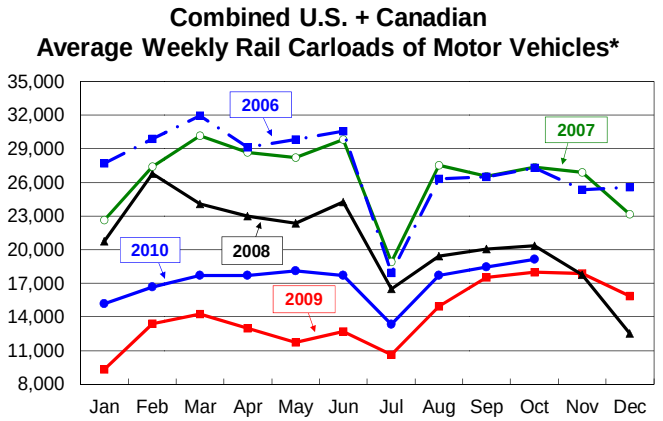
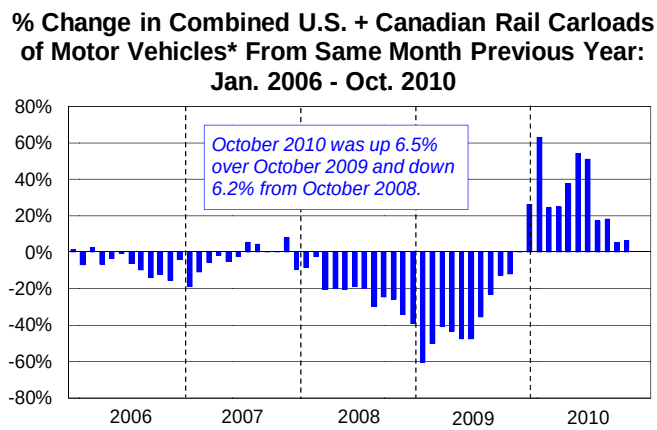


*Includes parts. Data are weekly average originations for each month, are not seasonally adjusted, and reflect revisions from original reporting. Source: AAR *Weekly Railroad Traffic*



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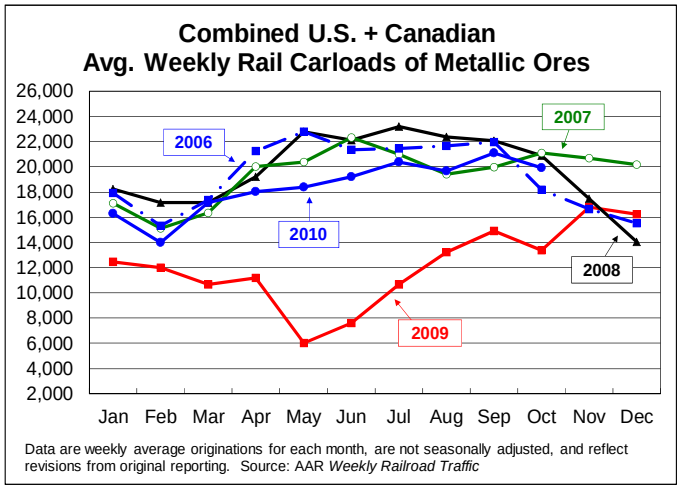
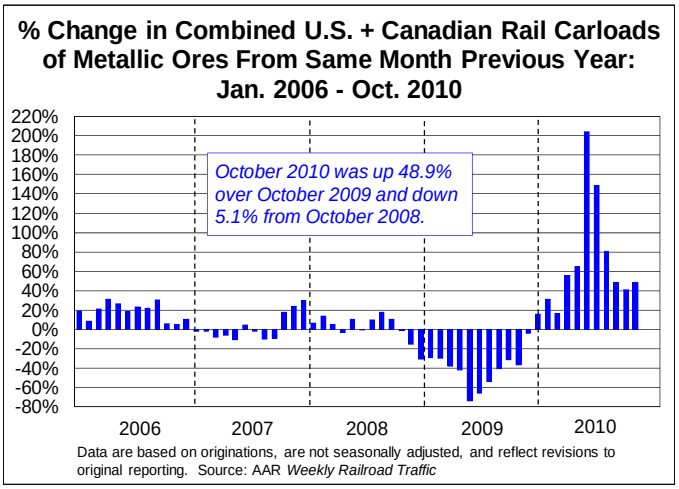
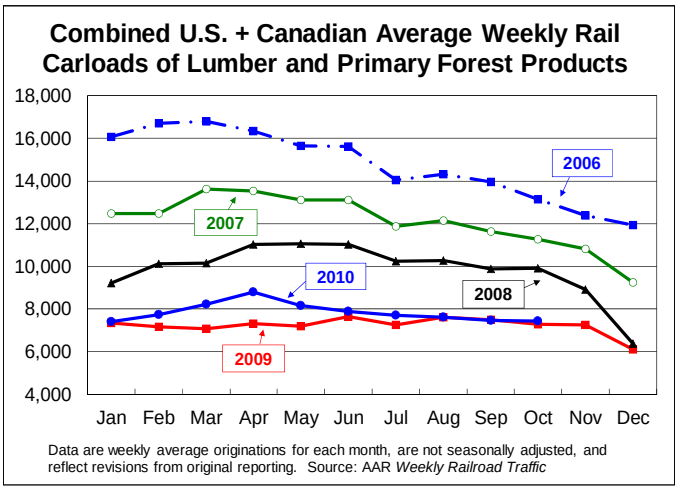
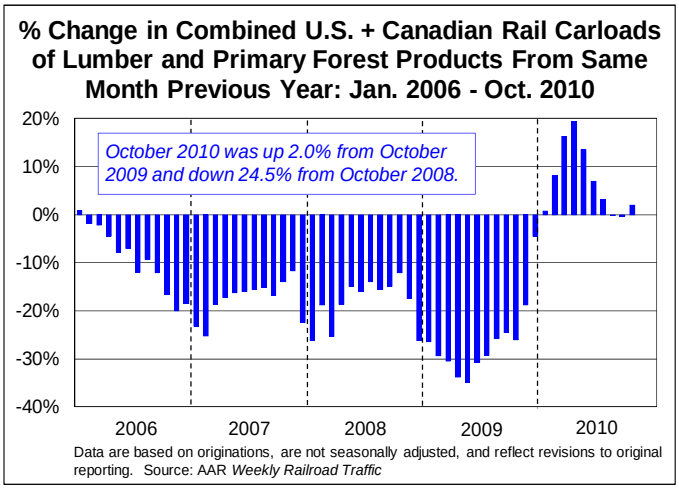
METALLIC ORES (OVERWHELMINGLY IRON ORE)



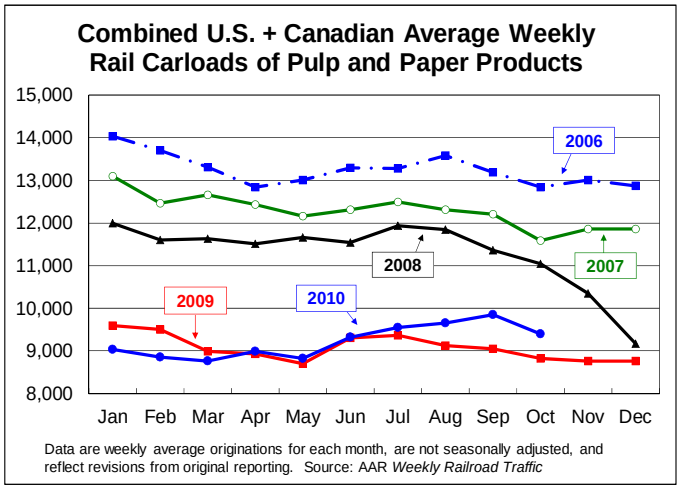


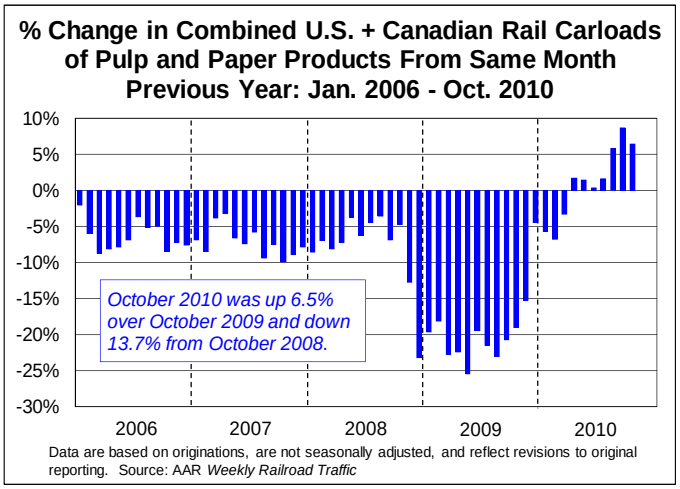
LUMBER AND WOOD PRODUCTS + PRIMARY FOREST PRODUCTS



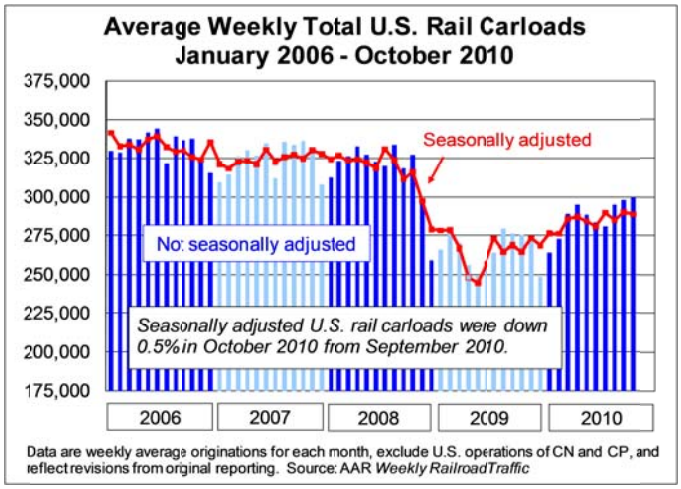


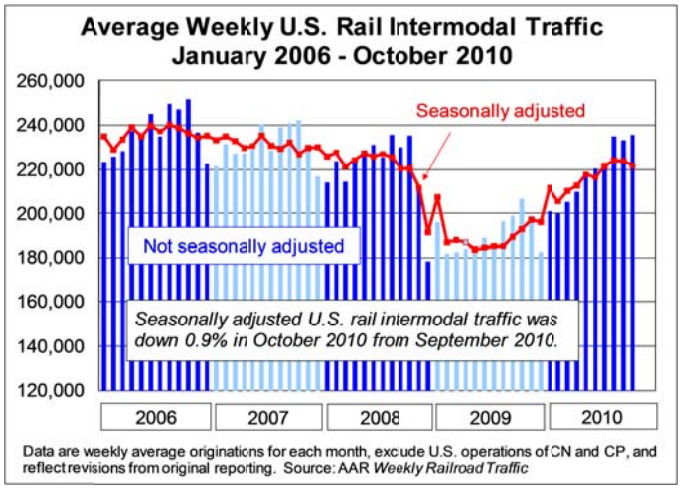
PULP AND PAPER PRODUCTS

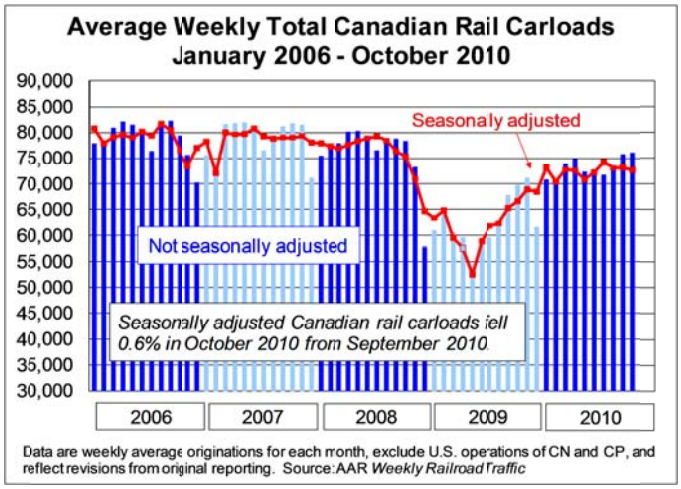


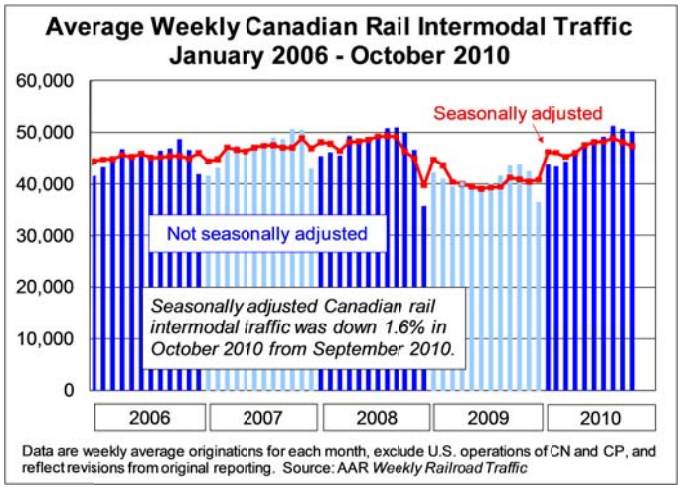


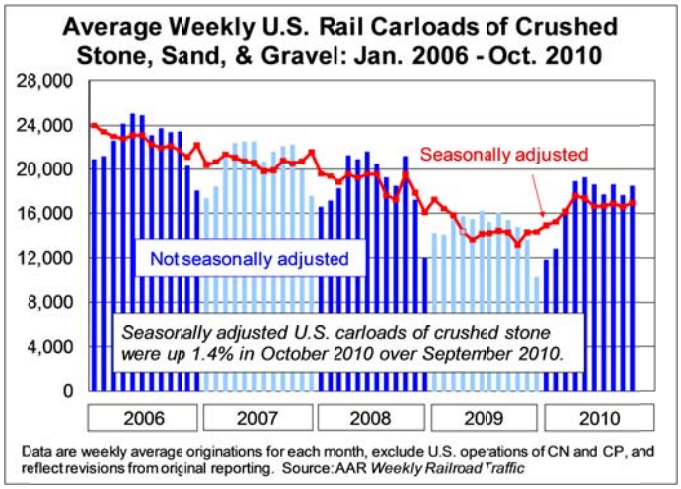
SEASONALLY ADJUSTED RAIL TRAFFIC

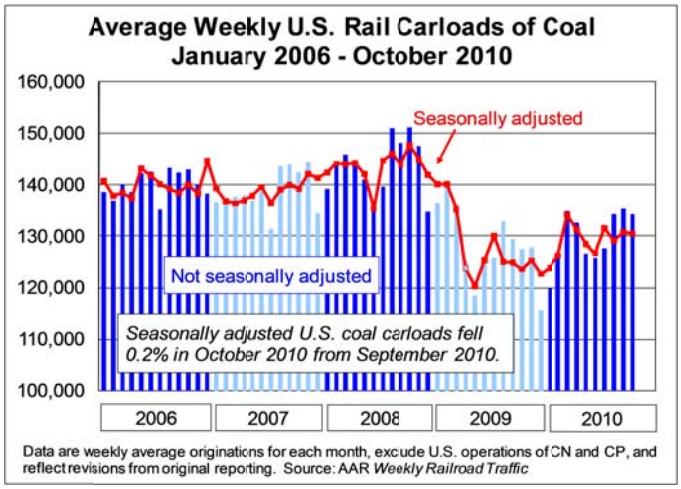




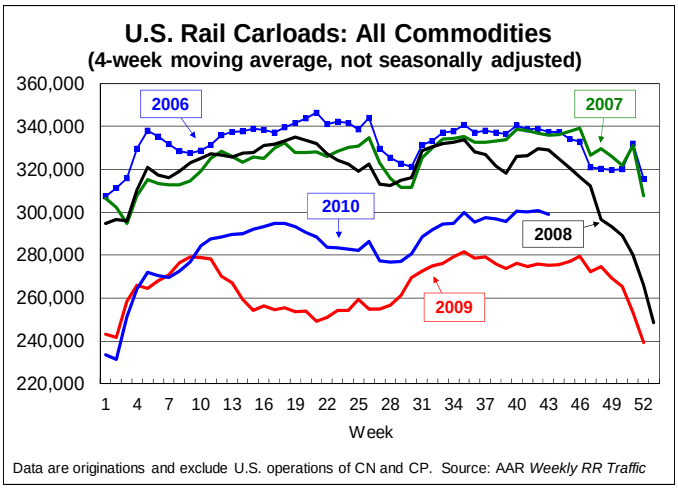


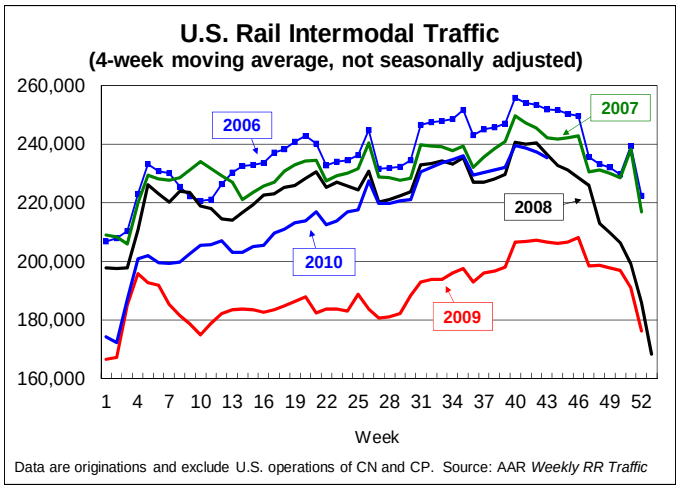


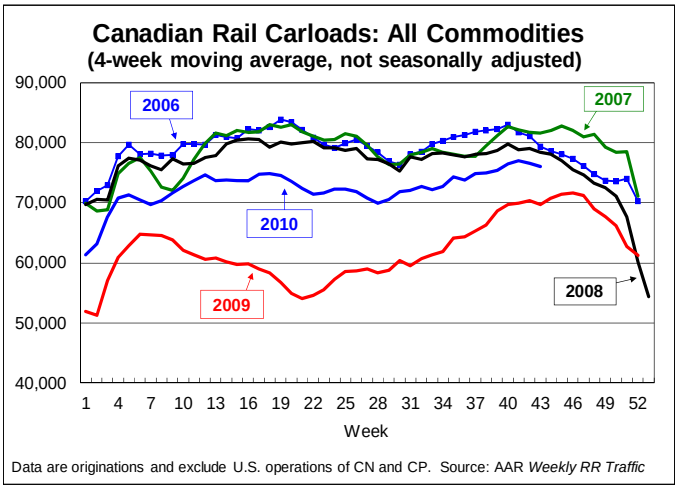


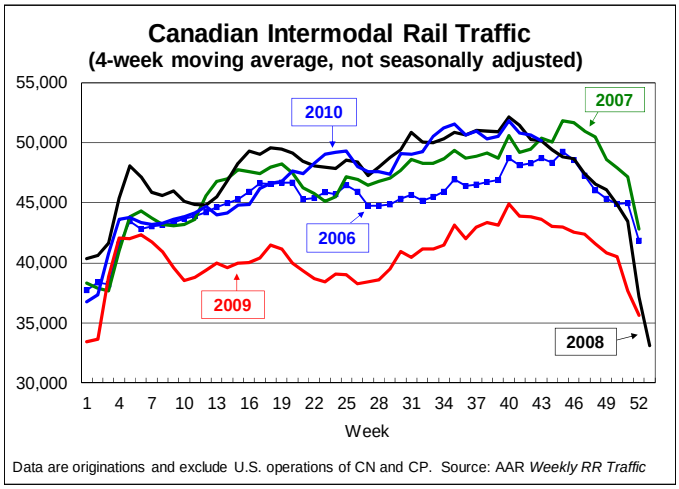


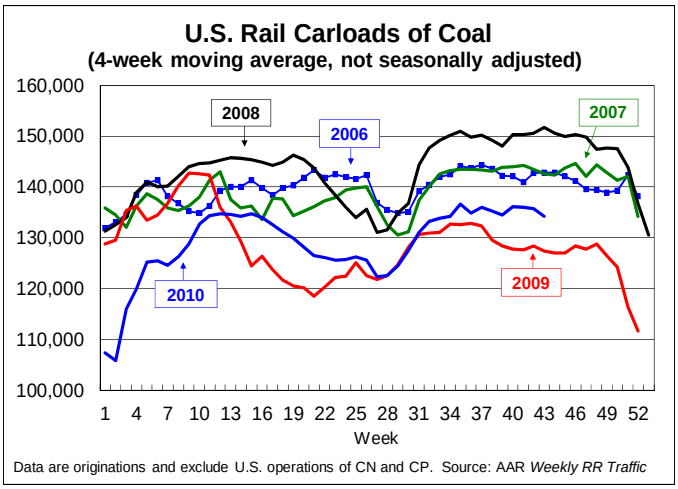
4-WEEK MOVING AVERAGES

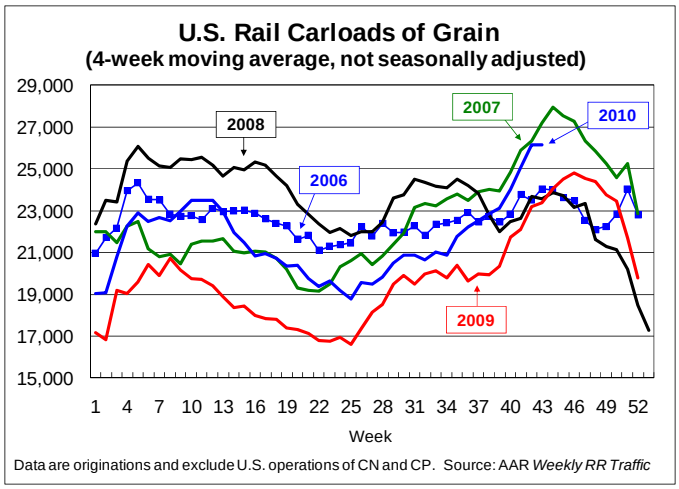












Where to go for more information:

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

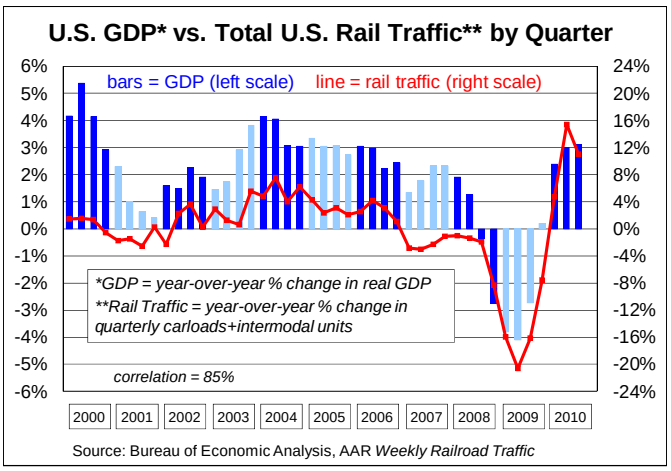
GROSS DOMESTIC PRODUCT (GDP)

Who releases it and when?

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

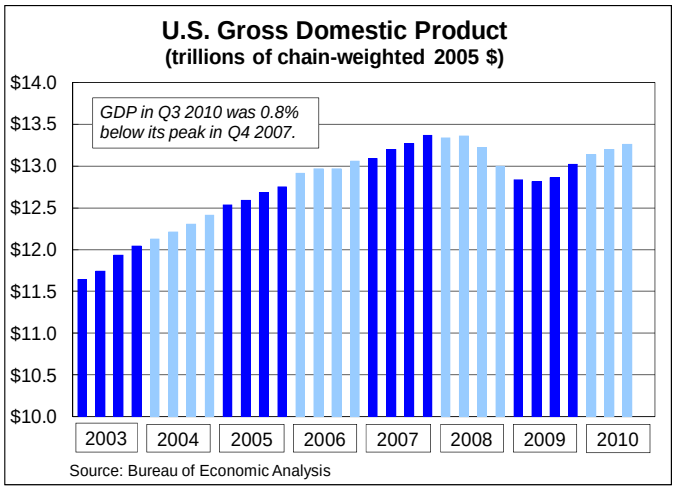
What is it and why is it important?

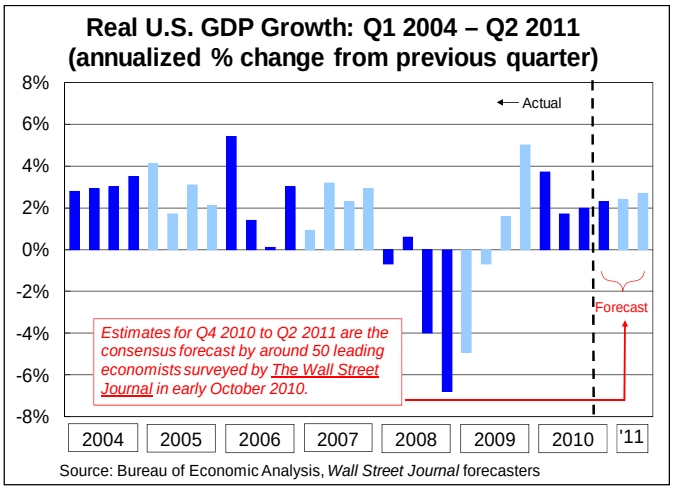
- GDP (the output of goods and services produced by labor and property located in a country) measures the size of an economy and how fast it's growing. Assuming it's measured accurately, it's probably the single most conclusive piece of information on the health of an economy.
- The GDP figure that gets 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 inflation-adjusted 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 at right).



What are the latest numbers?

- **U.S. GDP grew at an annualized rate of 2.0% in Q3 2010**, according to the BEA's first preliminary estimate released October 29. That was up a bit from the meager 1.7% growth in Q2 2010 and in line with what most economists expected. Continued weak economic growth was, of course, one of the key reasons why so many incumbent politicians were booted from office in the recent elections.
- In dollar terms, real GDP in Q3 2010 was 0.8% lower than it was 11 quarters earlier in Q4 2007, the quarter when GDP reached its most recent peak (see chart below left). Since 1948, the only time GDP has had a comparable level of futility 11 quarters after peaking was in the early 1980s.
- GDP growth in Q3 stemmed primarily from higher consumer spending (up 2.6% in Q3 2010, compared with a 2.2% increase in Q2 2010) and inventory buildup (the change in inventories added 1.44 percentage points to Q3 GDP growth, up from 0.82 percentage points in Q2).





- Each month, *The Wall Street Journal* surveys around 50 leading economists. Regarding the most recent survey, released October 15, the *WSJ* reported: "Economists …see just a 20% chance of another recession in the next 12 months. On average, the economists see gross domestic product growth under 3% for the rest of 2010 and through 2011. Meanwhile, the unemployment rate is forecast to be 9.3% in June 2011."

- Just about everyone is unhappy with how slowly the U.S. economy is growing. Thinking it can do something about it, on November 3 the Federal Reserve Board announced it would engage in "**quantitative easing**" (QE).

- According to Investopedia (www.investopedia.com), quantitative easing is "a government monetary policy used to **increase the money supply** by buying government securities or other securities from the market," thereby "flooding financial institutions with capital in an effort to promote increased lending and liquidity." In other words, quantitative easing is **the equivalent of a Fed printing press** to create money for buying financial assets.

- The Fed announced it would buy $600 billion of longer term Treasury securities over the next eight months. Reinvesting proceeds from other securities in its portfolio will bring the total closer to $1 trillion, and possibly much more. The Fed said it is prepared to buy more government debt if the economy's weakness leads inflation to remain too low and unemployment too high.

- This is the second time the Fed has pursued this kind of policy. In late 2008, it approved massive bond purchases (ultimately totaling $1.7 trillion) that almost certainly helped **avert a financial catastrophe**. Today, there's no real danger of that — it's just that the economy is growing too slowly. Because this is the second go around, this latest effort is commonly referred to as "QE2."

- Buying government securities and taking them off the market will push up their prices and push down their yields. This, according to QE2's proponents, **will keep interest rates low on other types of debt** (*e.g.*, mortgages, corporate debt) that are closely tied to U.S. Treasury rates. This, in turn, is supposed to lead consumers to spend more and companies to invest more — thereby boosting the economy. Besides, some proponents of QE2 say, the Fed has to do something and it's out of other options.[2]

- Those who claim QE2 won't help much point out that interest rates are already very low. They say that if businesses aren't investing and hiring when interest rates are almost zero, they aren't going to invest much more when interest rates are closer to zero. They say that if credit is tight when interest rates are basically zero, credit will probably stay tight when interest rates are a bit closer to zero. And they say that firms are already sitting on hundreds of billions of dollars in cash that they could use for expansion if they thought conditions were right for it, which they don't. Opponents of QE2 also fear it could lead to much higher inflation later on (see page 30).

- It's hard to get economists to agree on anything, so it's no surprise that the merits of QE2 are hotly debated. The *WSJ* economists noted above, for example, disagree among themselves. Nearly all of them expected the Fed to act (they were surveyed in early October, before the Fed's announcement). Of the 53 economists surveyed, 23 said more Fed asset purchases were needed, 23 said risks outweighed the benefits, and 7 said the purchases wouldn't be effective.

- The bottom line is that **we're in uncharted territory**. Nobody knows if or when the *intended* consequences will be realized or what the *unintended* consequences will be.

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 revision to preliminary Q3 2010 GDP on November 23. Click here for more on the latest *WSJ* survey of economists. For the Federal Reserve Board's statement on QE2, click here. A useful *WSJ* primer on quantitative easing is here.

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[2] We like this characterization from the Bank of America: "Think of the Fed as a group of soldiers in a foxhole. They have fired their bazooka and their rifle ammunition … and they are now using their pistols."

PURCHASING MANAGERS INDEX (PMI)

Who releases it and when?

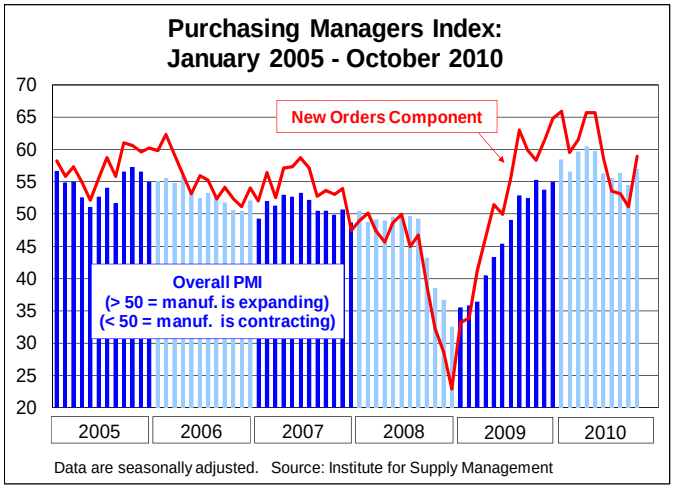
- Institute for Supply Management (ISM – formerly the National Association of Purchasing Managers), near the beginning of each month.

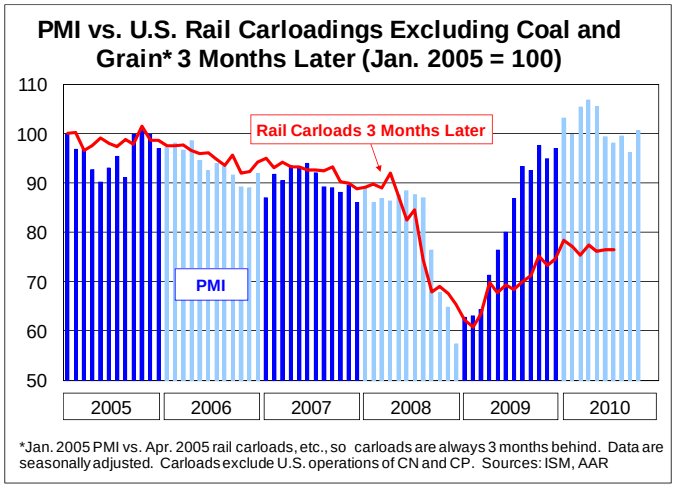
What is it and why is it important?

- 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, 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 rebounded to 56.9 in October 2010 from 54.4 in September 2010**, reaching its highest level since May 2010. The **new orders** component of PMI **surged to 58.9 in October 2010 from 51.1 in September 2010**, reversing four straight months of decline (see chart below left).
- What the ISM said about the October PMI: "Since hitting a peak in April, the trend for manufacturing has been toward slower growth. However, this month's report signals a continuation of the recovery that began 15 months ago, and its strength raises expectations for growth in the balance of the quarter. Survey respondents note the recovery in autos, computers and exports as key drivers of this growth. Concerns about inventory growth are lessened by the improvement in new orders during October. With 14 of 18 industries reporting growth in October, manufacturing continues to outperform the other sectors of the economy."
- The ISM notes that, "The past relationship between the PMI and the overall economy indicates that the average PMI for January through October (57.4) corresponds to a 5.2





percent increase in real gross domestic product." No one thinks the economy is growing that fast now, and BEA data indicate the economy was growing at less than half that pace in the first three quarters of this year.

- As has been the case for months, the once-close relationship between PMI and rail traffic appears to indicate that PMI is, in fact, still overstated. The chart on the bottom of the previous page shows the correlation between PMI and rail carloads excluding coal and grain three months later. The correlation between rail traffic and PMI is closer using traffic three months out than using rail traffic for the current month, one month out, or two months out.

Where to go for more information:

- More details regarding the October PMI are here. The November PMI will be released on December 1, 2010.

MANUFACTURING INVENTORIES AND SALES

Who releases it and when?

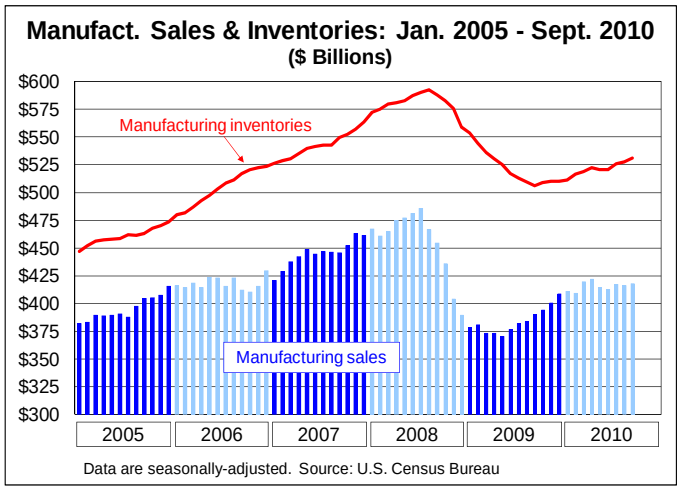
- The U.S. Census Bureau, near the beginning of each month, covering the month two months prior. (*E.g.*, the report released in early September has data covering June.)

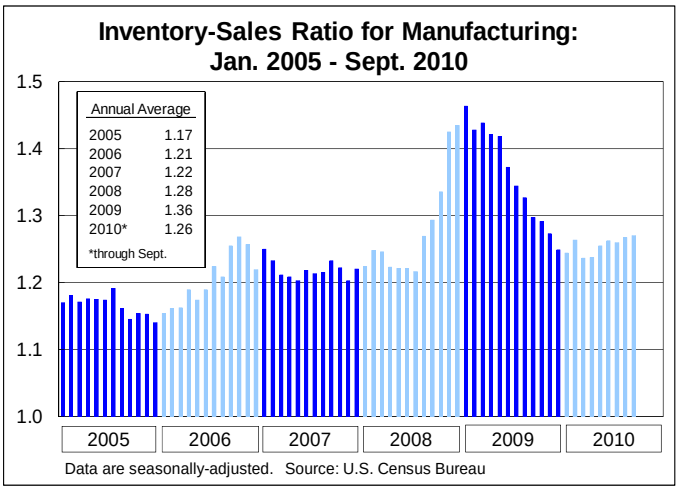
What is it and why is it important?

- 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.

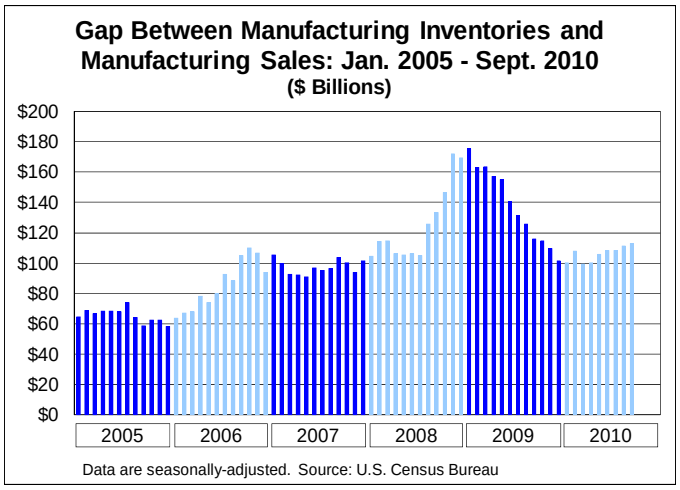
What are the latest numbers?

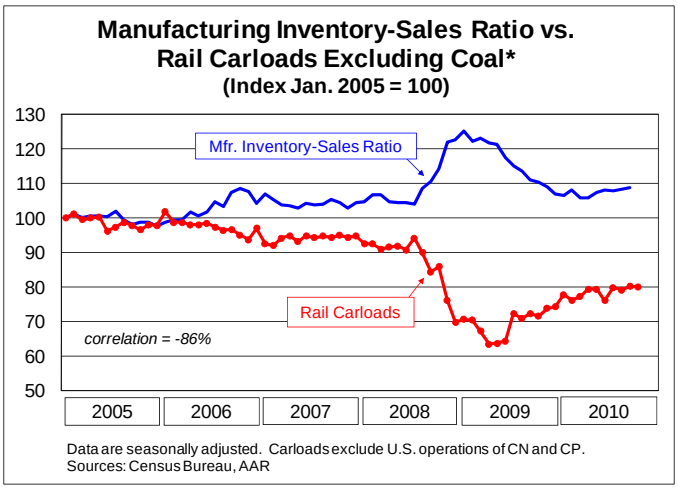
- **Manufacturing sales rose 0.4% ($1.7 billion) in September 2010 over August 2010**, while **manufacturing inventories rose 0.7% ($3.5 billion)** (see chart below left). The resulting inventory-sales ratio for manufacturing **rose 0.3%** (see chart below right).





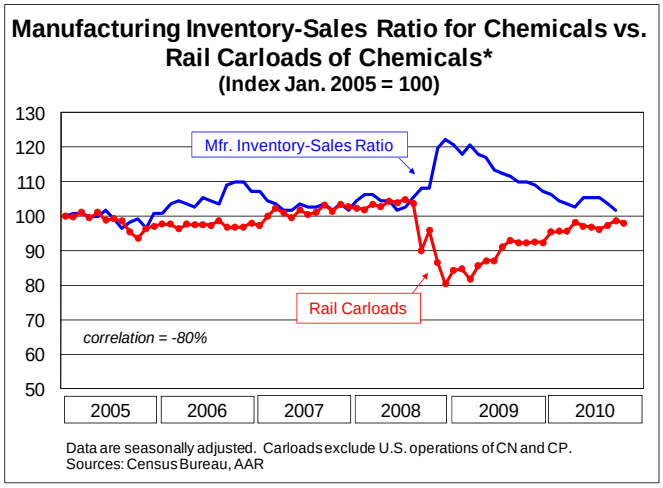
- Manufacturing sales bottomed out in May 2009 at $370 million, then rose more or less steadily through April 2010 when it reached $422 — a 14% increase in 11 months. In the five months since, manufacturing sales haven't gotten back to their April 2010 level.

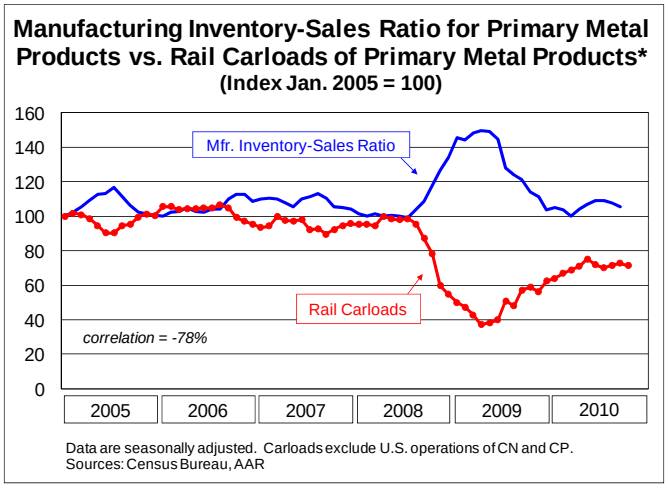




- The chart above left, which we last showed in June, shows the gap between manufacturing inventories and manufacturing sales. Note that the gap has been trending upward for six months — another way of showing that **manufacturing inventories have been increasing faster than manufacturing sales** over that period. This is worth keeping an eye on. If the gap gets too large because inventories get too high, manufacturers could be expected to cut production.

- The charts below show the correlation between the inventory-sales ratio and rail carloads for **chemicals** and **primary metal products** (mainly iron and steel). The general pattern is the same as that shown in the chart above: as the ratio increases, rail carloads fall. For chemicals, both the inventory-sales ratio and rail carloads are back near their 2007-2008 levels. For primary metal products, the ratio is back near its 2007-2008 level, but carloads are not.





Where to go for more information:

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

INDUSTRIAL PRODUCTION

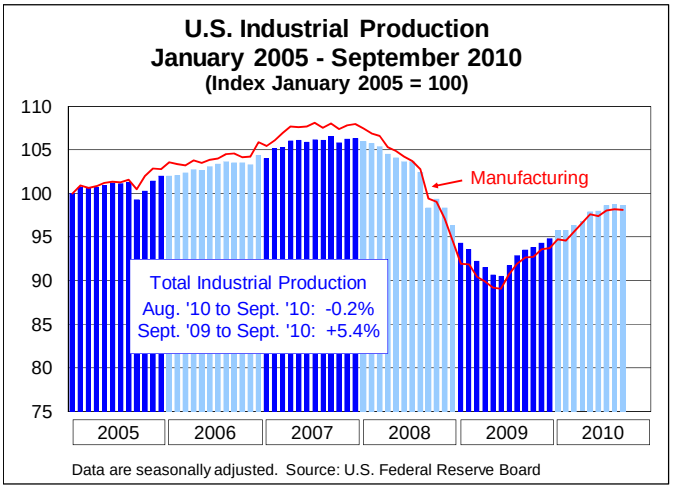
Who releases it and when?

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

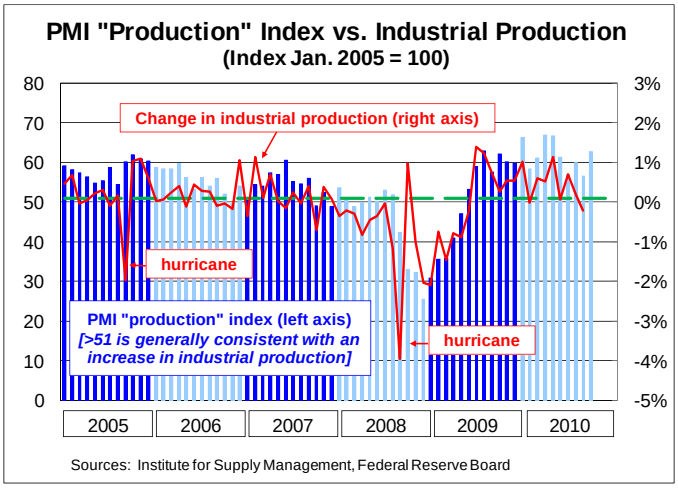
What is it and why is it important?

- 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. Data are obtained from a variety of government and industry sources.
- The industrial sector typically exhibits the most volatility in output during a business cycle. Large changes in industrial output can mean that a business cycle has reached an inflection point.

What are the latest numbers?

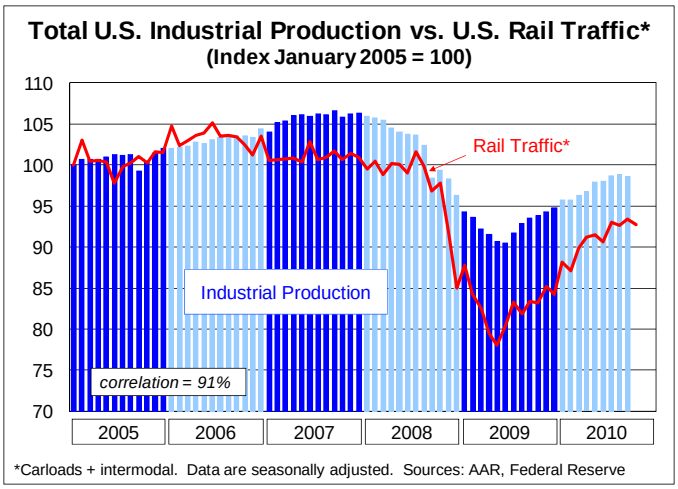


- Total **industrial production fell 0.2% on a seasonally adjusted basis in September 2010 from August 2010**. This is just the **second time since July 2009** that industrial production has fallen. (It fell a miniscule 0.02% in February 2010.) Industrial production in September 2010 was 5.4% higher than in September 2009.
- In the four months from June 2010 through September 2010, industrial production rose a total of just 0.7% (see the chart at right), signaling a clear slowdown in growth for a sector that has been one of the few economic bright spots. In Q3 2010, total industrial production rose at an annual rate of 4.8%, down from 7.1% in Q1 2010 and 7.0% in Q2 2010.
- **Manufacturing,** by far the biggest component of industrial production, **fell 0.1% in September 2010 from August 2010**, just the third month-to-month decline since July 2009. After growing at an annualized rate of 9.1% in Q2 2010, manufacturing grew just 3.6% in Q3 2010.
- One component of the Purchasing Managers Index (see page 18) is a **"production" sub-index**. According to the Institute for Supply Management, a production sub-index above 51 is, over time, generally consistent with an increase in the Federal Reserve Board's industrial production measurement.



- The chart at right compares these two indicators. If the ISM is correct, when the bars in the chart are above 51 (the dashed green line on the chart), industrial production should be growing (*i.e.*, the red line in the chart should be above 0%). Generally, that is the case. The ISM's production index was 62.7 in October 2010, a solid increase from September 2010's 56.5. In theory, this means that when industrial production figures for October are released on November 16, they should show a nice increase.

- On the other hand, the chart at right shows total industrial production vs. total seasonally adjusted rail traffic, which fell slightly in October. Based on that, it wouldn't be surprising if industrial production fell a bit in October too — the opposite of what PMI's production sub-index suggests. We think rail traffic is a better indicator, but we'll see on November 16, when October industrial production data will be released.



Where to go for more information:

- The Federal Reserve release on industrial production in September is here. October 2010 data will be released on November 16, 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.

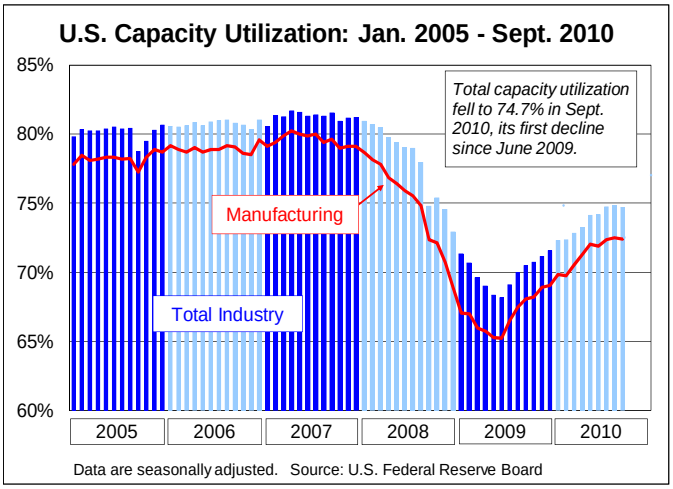
- In theory, a capacity utilization rate of, say, 70% means there is room to increase production up to 100% without having to build new plants or add equipment. In practice, capacity utilization rates (at least on an economy-wide basis) never come close to 100%. Utilization levels above 82%-85% are generally 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 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.

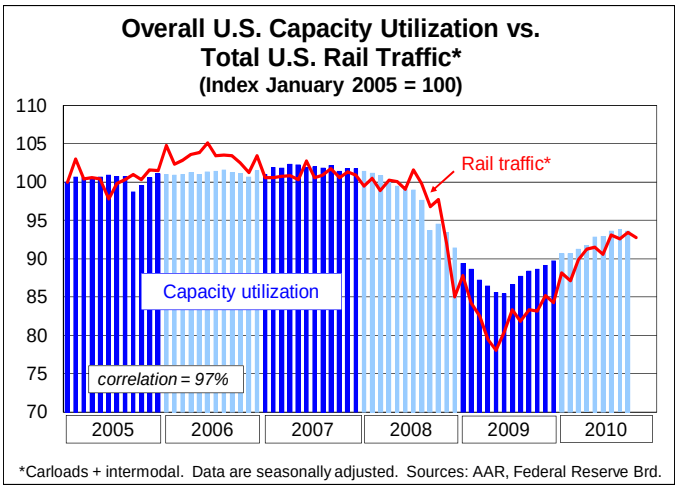
What are the latest numbers?

- Capacity utilization for total industry (mining, manufacturing, and gas and electric utilities) **fell 0.2% in September 2010 to 74.7%**, the first decline since June 2009. Capacity utilization has certainly improved over the last year — it was 70.5% in September 2009 (see chart below left) — but still isn't close to its average from 1972 to 2009 (80.6%).

- **Capacity utilization for manufacturing fell to 72.4% in September 2010** from 72.5% in August 2010.



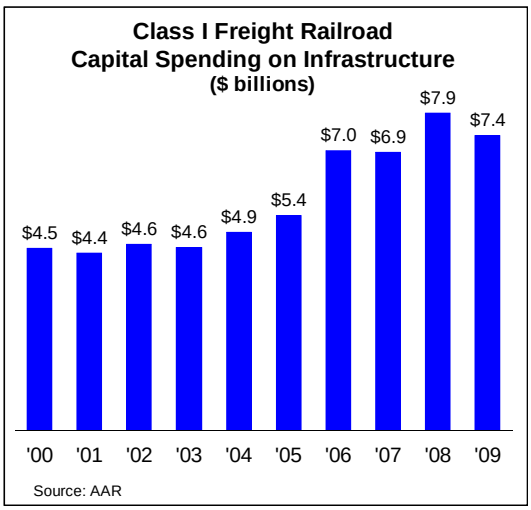
- For most industries, upgrading capacity consists of much more than simply adding new machinery. For railroads, the capacity upgrade process can be generalized as involving four steps:

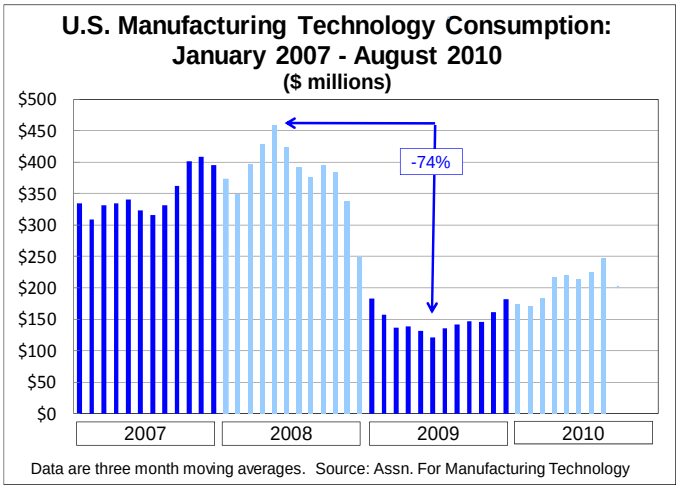


  1. Process changes that enhance capacity (*e.g.*, redesigning operating plans, designing new interchange plans with connecting railroads, and working with customers to improve inbound or outbound flows).
  2. Improved information technology (*e.g.*, dispatching and control systems, terminal management systems, and maintenance planning systems).
  3. Acquire and deploy assets that can be used flexibly (*e.g.*, people, locomotives, freight cars, and higher-capacity maintenance machinery).
  4. If steps 1 through 3 aren't enough, add "iron in the ground." This represents long-term assets that, once in place, can't be redeployed elsewhere.

- The chart below left shows that, in recent years, railroads have been investing record amounts in "iron in the ground." There was a slight dip in rail capital expenditures devoted to infrastructure in 2009 relative to 2008, but 2009 was still the second-highest level ever.

- Over the past couple of years, many U.S. firms haven't been too concerned with adding to their own versions of "iron in the ground" because they've had so much capacity sitting idle. The chart below right shows one way to measure new "iron in the ground" for U.S. manufacturers. The chart shows that monthly U.S. consumption of manufacturing technology (mainly machine tools and related factory automation equipment) plunged beginning in late 2008, bottomed out in mid-2009, and is only slowly recovering.





Where to go for more information:

- The Federal Reserve release on capacity utilization in September is here. October 2010 data will be released on November 16, 2010.

NUMBER OF EMPLOYED PERSONS AND UNEMPLOYMENT RATE

Who releases it and when?

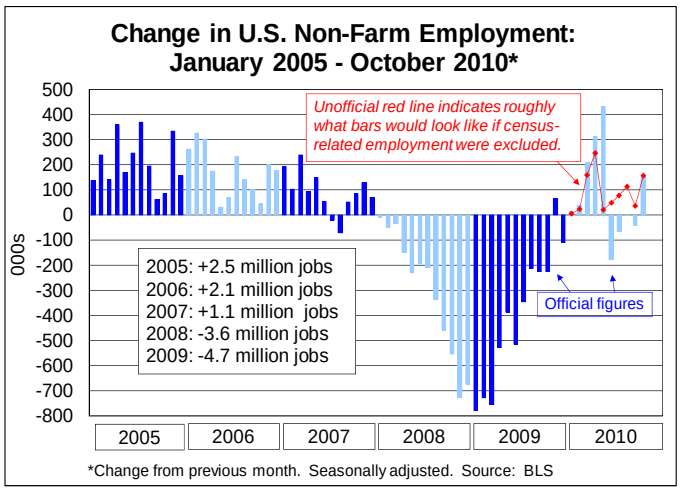
- U.S. Bureau of Labor Statistics (BLS) near the beginning of each month.

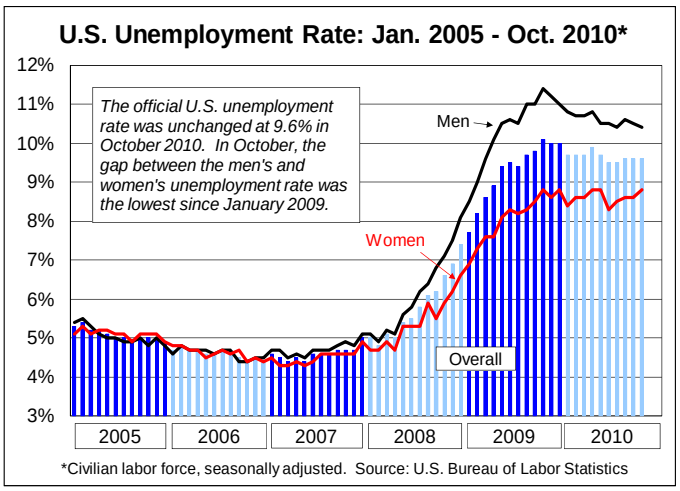
What is it and why is it important?

- The figures provide a snapshot of the strength of the U.S. labor market. They are based on two separate surveys: 1) an "establishment survey" of more than 400,000 businesses, and 2) a "household survey" of 60,000 households.
- In the United States, **a gain of 150,000 or more jobs** from one month to the next **is generally considered solid job growth**. (Average monthly U.S. job growth from September 2003 through December 2007 was 159,000 jobs.) 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 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 rose by 151,000 in October 2010**, the first increase in overall employment since May 2010. The "Census effect" in October was very small — only around 5,000 temporary Census workers were dropped from federal government payrolls in October, meaning Census workers didn't distort employment figures significantly. For most months in 2010, the Census effect was significant (see chart below left).
- **The official unemployment rate remained unchanged at 9.6% in October 2010**, but only because of a drop in the labor force participation rate, which fell to 64.5% in October — its lowest level since 1984.[3]

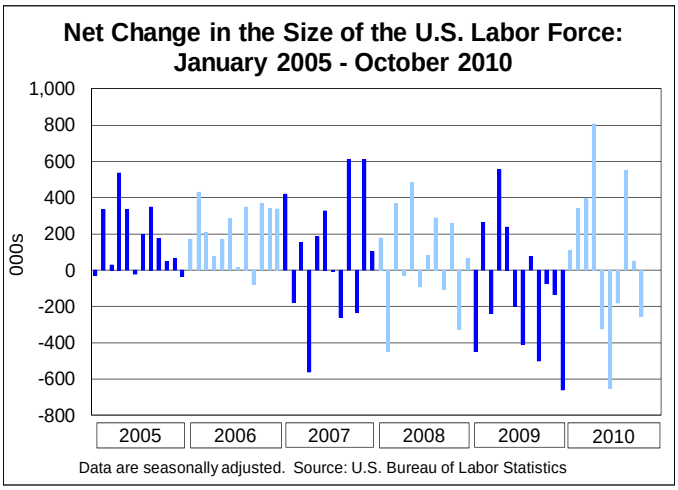




[3] The labor force participation rate is defined as the number of people considered part of the labor force divided by the working age civilian noninstitutional population. To be considered part of the labor force a person must either be officially employed or officially unemployed. The officially employed are those who worked at least one hour for pay during the reference week; worked in their own business, profession, or on their own farm; worked 15 hours or more as unpaid workers in an enterprise operated by a member of their family; or were on leave (vacation, sick, maternity, etc.). The officially unemployed are those who had no employment during the reference week, were available for work, and made efforts to find employment sometime during the previous four weeks.

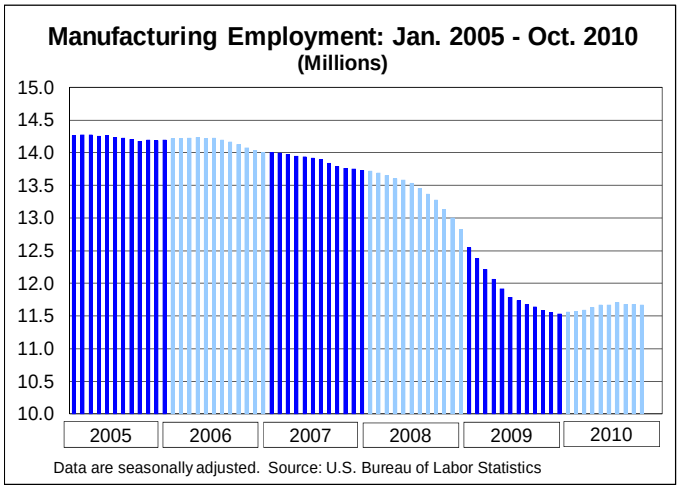
- In October, a record 84.6 million people in the United States age 16 and over were not considered part of the labor force, including a record number (1.2 million) who have given up looking for a job because they believe no jobs are available for them.

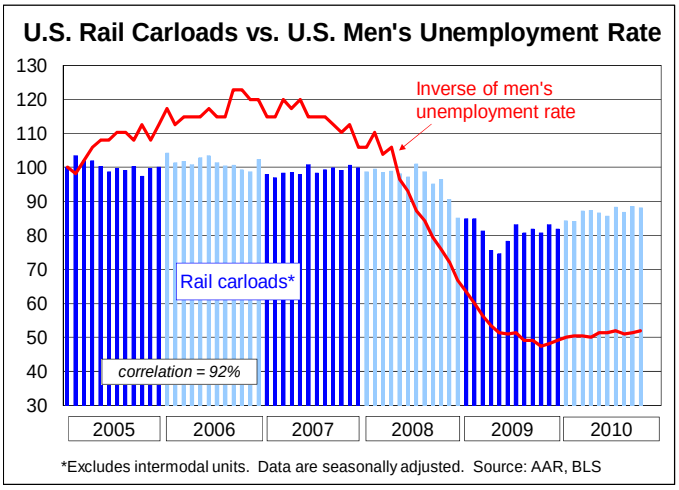
- The official size of the labor force swings wildly from one month to the next. Approximately 254,000 people dropped out of the labor force in October (see chart at right). Had they remained, the official unemployment would have gone up.



- The unemployment rate in October 2010 **for men fell to 10.4%** (from 10.5% in September) while the rate for **women rose to 8.8%** (from 8.6%). The gap between the two fell to 1.6 percentage points, the smallest it's been since January 2009. Most of the 254,000 people who dropped out of the labor force in October were males — the male labor force participation rate in October (70.9%) was a post-World War II low. Thus, the decline in the unemployment rate for males is due more to men dropping out of the labor market than to men finding jobs.

- Other factoids from the October employment situation report:
  - ✓ **The private sector gained 159,000 jobs, the most since April 2010**. The categories with gains included temps (35,000), retail sales (28,000), and health care (24,000). Since December 2009, employment in the private sector has risen by 1.1 million.
  - ✓ **Construction gained 5,000 jobs**, a trivial amount compared to its net loss of 2.1 million since peaking in August 2006.
  - ✓ **Manufacturing lost another 7,000 jobs** for a total of 2.6 million since January 2005 (see chart below left).
  - ✓ The number of temporary workers rose for the 12th time in the last 13 months. **Temporary jobs have risen by 451,000 since their recent low in September 2009**. The last time temp employment was as high was October 2008.





- The unemployment rate matters as far as rail traffic is concerned. The chart on the bottom right of the previous page shows the strong correlation between the unemployment rate (especially the men's unemployment) and rail carload traffic.[4]

Where to go for more information:

- The BLS press release on the employment situation in October 2010 is here. Data for November 2010 will be released on December 3, 2010.

CLASS I FREIGHT RAILROAD EMPLOYMENT

Who releases it and when?

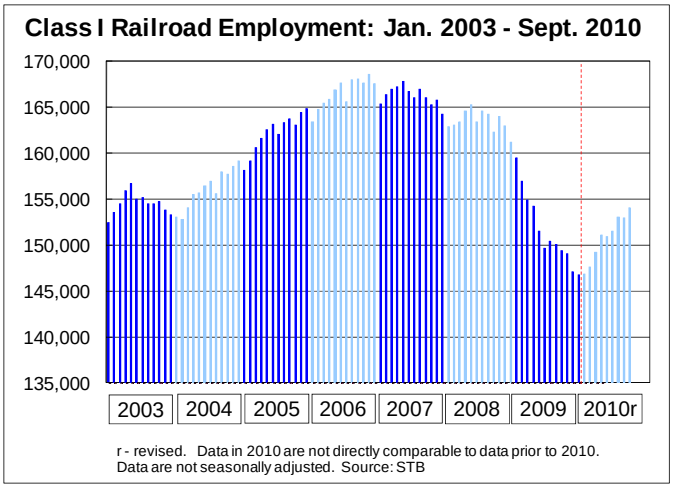
- Surface Transportation Board (STB), around the middle of the month.

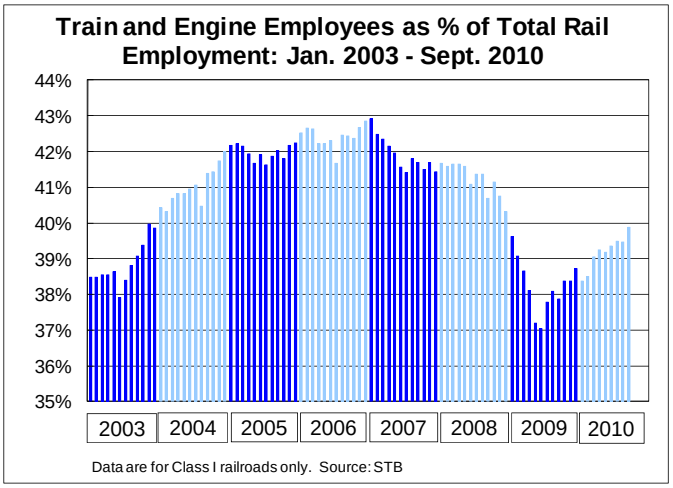
What is it and why is it important?

- The data show the average number of Class I employees at mid-month. The figures 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 by 1,169 employees in September 2010 from August 2010** to 154,094. Nearly all of the increase consisted of train and engine employees — i.e., engineers and conductors who operate trains.





- As of September 2010, train and engine employees accounted for 39.9% of total Class I rail employment. That's up from a low of 37.1 percent in June 2009, but still well below the 42.1 percent average from 2005 through 2007, when rail traffic was much higher than it is today. There's room for train and engine employment to grow — assuming, of course, that rail traffic continues to grow.

Where to go for more information:

- The STB web site for railroad employment data is here.

[4] Versions of this chart in previous *Rail Time Indicators* showed men's unemployment vs. rail carloads plus intermodal traffic combined. The correlation is strong for a variety of rail traffic measures.

CONSUMER CONFIDENCE

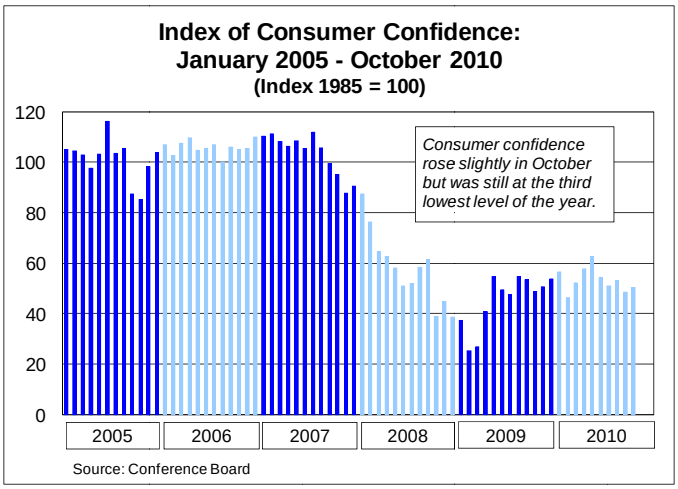
Who releases it and when?

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

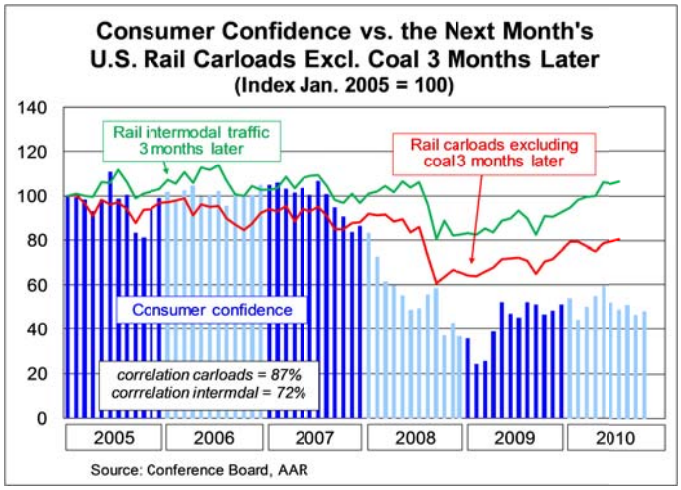
What is it and why is it important?

- 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 **rose to 50.2 in October 2010 from 48.6 in September 2010**. This partially reversed September's decline, but the October figure is still the **third lowest of the year**.
- What the Conference Board said about the October index: "Consumer confidence…is still hovering at historically low levels. Consumers' assessment of the …economy is relatively unchanged, primarily because labor market conditions have yet to significantly improve. And, despite the uptick in Expectations, consumers continue to be quite concerned about the short-term outlook. Both present and future indicators point toward more of the same in the coming months."



- Like the unemployment rate, consumer confidence matters in terms of how much traffic railroads haul. There are various ways to show this, including the chart at right. It shows the correlation since 2005 between consumer confidence in a particular month and rail traffic (specifically, carloads excluding coal and total intermodal traffic) three months later. The correlation isn't perfect, but it isn't insignificant either. Carload traffic is more closely correlated than intermodal traffic, and the correlation using rail traffic three months out is stronger than the correlation using rail traffic for the same month.

Where to go for more information:

- The Conference Board's press release on October's consumer confidence index is here. November's consumer confidence index will be released on November 30, 2010.

RETAIL SALES

Who releases it and when?

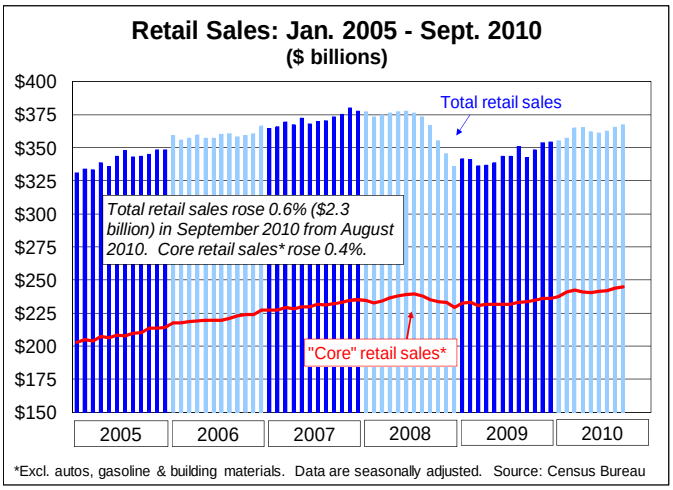
- The U.S. Census Bureau, around the ninth business day of each month.

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 0.6% in September 2010 from August 2010**, the third straight monthly gain. September 2010 retail sales were up 7.3% from September 2009.
- "Core" retail sales — which exclude autos, gasoline, and building materials — were up 0.4% in September.
- Approximately 43% ($983 million) of the $2.3 billion increase in retail sales in September 2010 over August 2010 was from motor vehicles and parts dealers — sales in this category in September 2010 were the highest since August 2008. Sales in virtually all categories rose in September 2010 from the previous month.



Where to go for more information:

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

LIGHT VEHICLE SALES

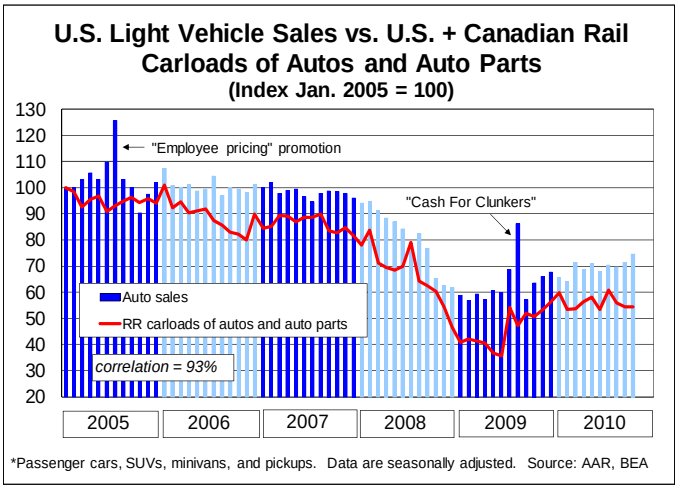
Who releases it and when?

- The U.S. Bureau of Economic Analysis, early in the month.

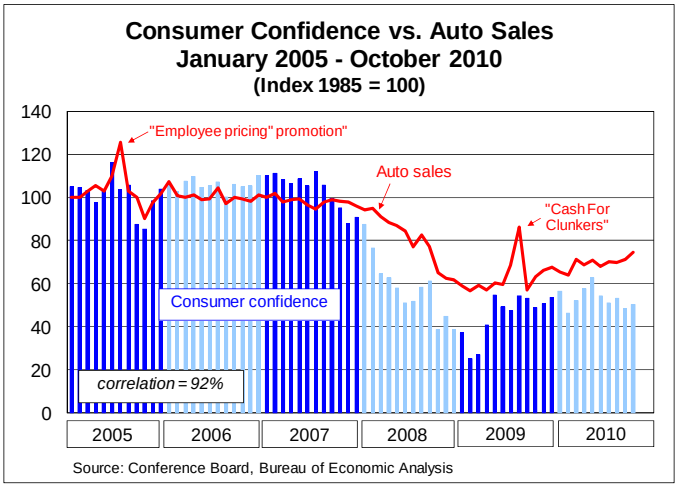
What is it and why is it important?

- Data cover 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 October 2010 were a seasonally-adjusted and annualized **12.2 million, up from 11.7 million in September 2010** and **10.4 million in October 2009**. Excluding the August 2009 "cash for clunkers" month, October 2009 was the highest auto sales month since September 2008.
- Press reports say that auto executives attribute the increase in auto sales in October to growing consumer confidence, increasing availability of credit, and rising demand from small businesses. An executive of one of the major car companies, for example, said "Consumers are starting to feel that the worst is over — not all of them, but many. There was less bad news out there."
- The auto executive might be right, but we're still skeptical. Auto sales are closely correlated with consumer confidence (see chart at right), and consumer confidence isn't exactly breathtakingly high right now (see page 27). Unemployment is still terrible too, and until that changes, consumer confidence probably won't improve much. We'll have to wait and see if the auto sales increase continues.



Where to go for more information:

- BEA data on auto sales are here.

HOUSING STARTS

Who releases it and when?

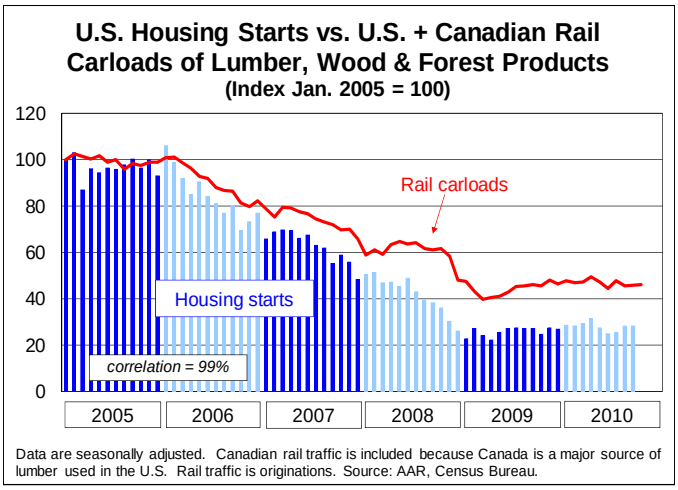
- U.S. Census Bureau, around the middle of each month.

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** barely moved in September 2010**, rising 0.3%** to an annualized and seasonally adjusted 610,000 — up from 608,000 in August 2010. September 2010's figure was 4.1% higher than September 2009.
- Seasonally-adjusted U.S. and Canadian carloads of lumber and wood and primary forest products rose 0.7% in October 2010 over September 2010. That likely portends no more than a very small increase in housing starts in October. October's housing starts will be released on November 17, 2010.



Where to go for more information:

- The Census Bureau's press release on housing starts in September 2010 is here.

CONSUMER PRICE INDEX (CPI)

Who releases it and when?

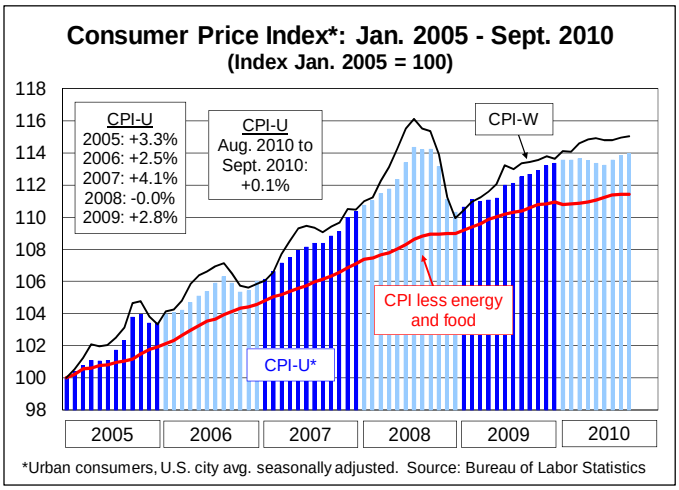
- U.S. Bureau of Labor Statistics (BLS), mid-month.

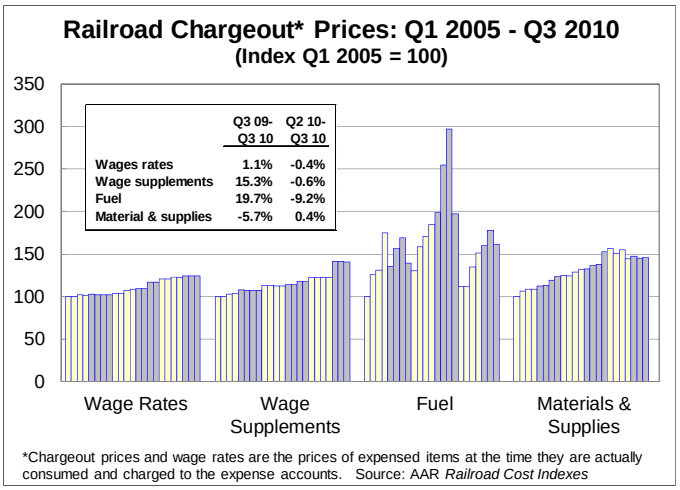
What is it and why is it important?

- 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.
- The "CPI for All Urban Consumers" (CPI-U) is the inflation index most often reported by the media, although BLS publishes hundreds of CPI indexes each month. The "core" CPI — defined as CPI less food and energy — is also commonly used. Food and energy prices are typically more volatile than other prices due to their susceptibility to external shocks.
- 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-U or a related index 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 September 2010, the **consumer price index** for all urban consumers (CPI-U) **rose** a seasonally adjusted **0.1%**. As of September, it was **up just 1.1%** on a **year-over-year basis**.
- "**Core" inflation** — CPI less food and energy — was **flat** again **in September** 2010 over August 2010 and is up just 0.8% year-over-year. That's well below the unofficial Federal Reserve Board target of 2.0%. The current very low inflation rate is one reason why the Fed felt that pursuing "quantitative easing" (see page 17) was appropriate at this time.
- You may have read or heard recently that there will be no cost-of-living adjustment (COLA) for Social Security recipients in 2011. There wasn't one in 2010 either. The chart on the top left of the next page has an extra line labeled "CPI-W," which is "Consumer Price Index for Urban Wage Earners and Clerical Workers." CPI-W is the basis for Social Security COLAs. It's a bit more





complicated than this (see here for a fuller explanation), but basically because CPI-W for Q3 2010 was lower than it was in Q3 2008, there will be no Social Security COLA in 2011.

- One of the major concerns regarding the Fed's "quantitative easing" is that it will lead to much higher inflation down the road unless the Fed is able to withdraw the money it will be printing (for all intents and purposes) in coming months. For one thing, QE2 is expected to mean a weaker dollar, which — all else equal — will mean relatively cheaper U.S. exports and relatively more expensive U.S. imports. Imports, though, are a huge portion of U.S. consumption. In addition, there is concern that QE2 will lead to much higher commodity prices, resulting in higher food and other prices. As noted on page 17, it's simply too soon to know if this will happen.

- The AAR's quarterly *Railroad Cost Index* publication details changes in the price level of inputs to freight railroad operations. In effect, it can be thought of as a CPI for railroads. The most recent data cover Q3 2010. From Q3 2009 to Q3 2010, the index of railroad wage rates (includes wage rates and bonuses) rose 1.1%; wage supplements (*i.e.*, fringe benefits such as health and welfare costs and payroll taxes) rose 15.3%; fuel rose 19.7%; and the price of materials and supplies in aggregate fell 5.7% (see chart above right). From Q2 2010 to Q3 2010, the railroad wage index fell 0.4%; wage supplements fell 0.6%; fuel fell 9.2%; and the price of materials and supplies in aggregate rose 0.4%.

Where to go for more information:

- The BLS press release on the September 2010 CPI is here. October's CPI will be released on November 17. For more on the Railroad Cost Index, see the AAR web site here or contact Clyde Crimmel of the AAR's Policy and Economics Department at 202-639-2309 or ccrimmel@aar.org. The next quarterly railroad cost index will be released near the end of December 2010.

RAIL FREIGHT CARS IN STORAGE

Who releases it and when?

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

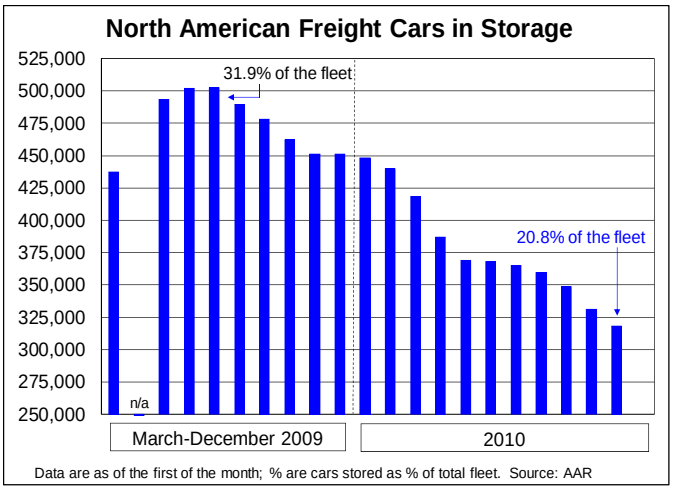
What is it and why is it important?

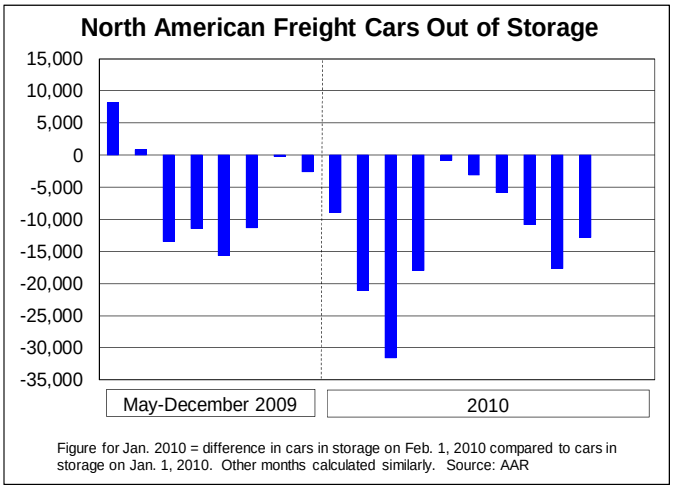
- A freight car is "in storage" if it has had a loaded revenue move since 2005, but not in the past 60 days. Rail cars are stored when they are not needed due to lack of demand; they come out of storage when demand improves. Figures are for the entire North American rail freight car fleet and include 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 November 1, 2010, **318,275 freight cars — 20.8% of the total fleet — were in storage**, a decline of 12,799 cars from October 1, 2010. Since peaking in June 2009, nearly 185,000 freight cars have come out of storage.





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.

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For more information on anything in Rail Time Indicators
or if you have suggestions on ways to improve it, please contact:

Dan Keen (dkeen@aar.org, 202-639-2326)

or

Shannon Stare (sstare@aar.org, 202-639-2322).

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.