Taking stock: 63,500 rail cars in '06

Toby Kolstad

Wall Street seems to have rediscovered the rail industry and rail-car suppliers, in particular. And the prices of rail-car builders' stocks give us a sense for how profitable builders will be in 2006.

As of late October, FreightCar America Inc.'s stock was selling at more than twice its April IPO price, and the builder had a coal-car order backlog that will last into late 2006. Coal is king on Wall Street these days, and FreightCar America is riding its coattails. But The Greenbrier Cos.' stock was selling for much less than its price in April — a sign, perhaps, that investment analysts don't believe intermodal business will continue to boom.

Meanwhile, the price of Trinity Industries Inc. stock has fluctuated all year; as of late October, it was up, but below its high point for the year. Trinity builds almost every car type, and analysts appear to be uncertain whether 2006 orders will beat 2005's.

Rail-car forecasting is a challenging task, as the above-mentioned investment analysts might confirm.

Last year, our forecast — made in October and published in the December 2004 issue of *Progressive Railroading* — predicted 52,300 cars would be built in 2005. In early January, we revised our projection to 61,000, but even that was short of what's looking like 66,000 deliveries this year.

INTERMODAL STILL HOT

After our 2002 and 2003 forecasts were within the promised error range of plus or minus 10 percent, the last two October predictions we made for the year that followed missed the mark by almost 20 percent. Nevertheless, we'll venture into the unknown and predict that 63,500 cars will be built in 2006. Change already may be in the wind for 2007, but next year's backlog is too great for deliveries to vary too much from 2005's total.

Through second-quarter 2005, intermodal buyers seem to have anticipated that carloads would continue to increase 10 percent compared with the 2004 total. That has not happened, although weekly carloads during October were 9 percent higher than during the same 2004 period — and remained ahead of the 6 percent year-over-year increases railroads posted during this past summer.

Although the backlog has fallen to less than 8,600 cars, we expect 10,000 new intermodal-car deliveries in 2006. *2005 Actual: 15,500 vs. 13,000 projected.*

> **Change already may be in the wind for 2007, but next year's backlog is too great for deliveries to vary too much from 2005's total.**

Coal-car orders just won't stop and deliveries can't keep up with demand, leaving a 21,000-car backlog at the end of the third quarter. Hopper deliveries in 2006 should reach 10,000 cars, and rotary gondola cars should total 11,000 deliveries. *2005 Actual: 5,000 vs. 9,600 projected for hoppers and 4,500 vs. 4,800 for rotary gondolas.*

Covered-hopper deliveries are also looking strong, although there has been a shift in the types of cars buyers prefer. Orders for small cube cars (i.e., capacity of less than 3,500 cubic feet) surged after the passage of the new highway funding bill, SAFETEA-LU, and deliveries next year should reach 5,000 cars. *2005 Actual: 2,300 vs. 3,500 projected.*

Orders for grain-size cars (capacity of less than 5,500 cubic feet) have dwindled this year, and the decrease in corn and soybean harvests should keep orders depressed for a while. Next year, we expect deliveries of 4,500 cars. *2005 Actual: 7,300 vs. 5,000 projected.*

Orders for plastic pellet-size cars (capacity of more than 5,500 cubic feet) jumped this year, fed car demand to handle distillers' dried grains from ethanol plants and healthy plastics traffic. Deliveries should reach 5,500 cars. *2005 Actual: 3,000 vs. 3,000 projected.*

FLATS ANYTHING BUT

Tank-car deliveries generally follow the economy, and this year was no exception. We expect '06 to be pretty much like '05: Deliveries will exceed 10,000 cars. *2005 Actual: 11,400 vs. 9,000 projected.*

Meanwhile, flat-car deliveries have remained as strong as the housing market, in defiance of all the pundits who kept predicting a fall-off in new-home construction. But rising mortgage rates will offset the demand caused by the recent Gulf Coast hurricanes. We expect deliveries to exceed 3,500 cars next year, but not reach anywhere near this year's totals. *2005 Actual: 5,300 vs. 4,000 projected.*

Orders for mill gondola cars and box cars are sensitive to car-hire issues, and the increase in new-car prices since 2004 upset the agreements reached between lessors who needed high car-hire rates to cover ownership costs and lessees who needed low car-hire rates because of low freight rates. Scrap and steel shipments are still healthy, and new gondola deliveries should match this year's performance with 1,500 new cars in 2006. *2005 Actual: 1,600 vs. 1,000 projected.*

Finally, orders for box cars fell off the chart this year and the backlog keeps shrinking, but we believe we'll see 2,500 new box cars in 2006. *2005 Actual: 3,700 vs. 5,500 projected.* PR

Toby Kolstad has been in the railroad industry for more than 30 years, with stints at Illinois Central Gulf Railroad, Denver & Rio Grande Western Railroad, a car builder and a lessor. Currently a consultant on rail-car matters and president of Rail Theory Forecasts L.L.C., he can be reached at Tkolstad@aol.com.