

# A reasoned rail-car forecast: 38,000 in '04



**Toby Kolstad**

**E**ach fall there is an annual exercise of predicting the coming year's new rail-car production. Status quo projections are disseminated by car builders and component suppliers, and economists and financial consultants who serve the rail-car building/leasing industry offer optimistic forecasts. But when the market collapsed in 2001, most guessed wrong — the best guesser was off by more than 100 percent. In 2002, forecasters did a little better, erring by only 20 percent to 30 percent on 2003 projections.

In 2001, Rail Theory Forecasts™ — a venture in which I'm a principal — tried a new approach to this annual exercise, one involving statistical analyses and mathematical models relating rail-car deliveries to interest rates, gross domestic product and other economic factors.

Using the models in the fourth quarter of the preceding years, we projected rail-car deliveries of 20,000 for 2002 and 33,000 for 2003. Both of these forecasts were close to the actual totals of 17,707 cars in 2002 and 31,000 cars in 2003. Using this same approach, we have projected that 38,000 rail cars — plus or minus 10 percent — will be delivered in 2004.

## FLEET AGE AN AGE-OLD ISSUE

Forecasting the delivery totals of specific car types, however, is still more of an art than a science, given the year-to-year variability resulting from the low order numbers, the relatively low car count and the different production schedules for specific car types. Nevertheless, trends can be measured and average production quantities accurately predicted.

For example, the 70-ton box-car fleet is getting old, worn and costly to maintain; few car owners invested in the mid-life rehabilitation programs needed to maintain the Class A service lives of these assets. Shippers already

are asking for new cars, especially for the bigger cars they expect would lower their freight rates. But the high price and poor utilization rate of replacement cars continue to limit new orders, recent orders by TTX Co. notwithstanding.

Until freight rates increase or car utilization improves, the annual new-car delivery rate should remain lower than what is required to replace the aging box-car fleet. **2004 projection: 6,500 box cars.**

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Even if there is a bumper grain crop as forecasted this year, the utilization level for covered hopper cars in grain service still will be too low to justify new car orders. Since all stored 4,750-cubic-foot rail cars have been recalled to service, utilization levels likely will continue to fall even further, unless traffic picks up at a faster-than-predicted pace. Orders for cement cars and plastic pellet cars, however, should improve

as the economy does. **2004 projection: 4,000 covered hoppers.**

The steel industry still has not recovered enough for would-be buyers to boost orders for coil and mill gondola cars. But for gondola and open-top hopper cars for coal service, orders — if not deliveries — should pick up in 2004. More coal has been burned than mined in 2003, and if the burn rate continues, mine production should accelerate next year. The increased production would give companies considering more or higher capacity cars a reason to invest. **2004 projection: 5,000 gondolas and 2,500 open-top hoppers.**

Production of centerbeam flat cars should begin to fall next year, since traffic growth is not expected to justify additional cars. But interest in other types of flat cars might rise as demand for other products such as steel pipe increases. In addition, the no-recertification allowance for aluminum multi-level autoracks could spark interest in that car type, even without a recovery in new automobile sales. **2004 projection: 3,000 non-intermodal flats.**

## INTERMODAL STILL INTRIGUING

Intermodal traffic gains triggered orders for intermodal cars earlier this year. Year-over-year gains have fallen in recent months and are expected to continue to diminish in '04, but this is one bet that this forecaster is not willing to make. Intermodal traffic has continued to grow in spite of many forecasts to the contrary. **2004 projection: 10,000 intermodal platforms.**

An expanding economy will generate more chemical products which, in turn, will increase demand for the 286k gross rail load (GRL) tank cars. There are plenty 263K tank cars in storage, but unlike the older 263K grain and coal cars, no amount of discounting seems enough to entice lessees to keep the smaller cars when they come off lease. **2004 projection: 7,000 tank cars.** **PR**

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