

Another healthy year: 52,300 rail cars in 2005



Toby Kolstad

Here we go again! To paraphrase my hero Yogi Berra, "I'm getting that *deja vu* feeling all over again." Although car-load traffic has climbed back to 2001 levels, and despite record-high new car prices, the industry had ordered almost 60,000 new cars through the third quarter — an order uptick we haven't witnessed since 1997. This year is like 1997 in another way: Railroads also are having network congestion problems.

For all those involved in the rail-car supply industry, from bankers to builders, may the railroad problems persist a little longer this time!

Last October, we forecast a delivery total of 38,000 cars, plus or minus 10 percent. At present, we expect more than 44,000 new cars to be delivered, about 16 percent more than we projected. Last fall, we didn't anticipate the 8.2 percent 3Q 2003 Gross Domestic Product (GDP) growth — which was about three times faster than had been projected — that was reported in December 2003. For Rail Theory Forecast clients, we factored in the revised GDP data and came up with 41,500 for the year, which put us within our formula's range of accuracy. For 2005? We're projecting 52,300 new cars.

TTX BETTING ON BIG YEAR

There were few surprises among specific car types this year — except intermodal and tank equipment. Imports of non-oil foreign goods surged more than 14 percent during 2004; and as imports go, so go intermodal loadings. TTX Co. correctly anticipated the additional traffic and ordered enough cars; more than 13,000 new wells will be delivered by the end of the year. It's hard to imagine how

imports can continue to increase at these rates, but TTX is betting on another big year. *2004 Actual: 13,300 vs. 10,000 projected. 2005 Projection: 13,000.*

We expected tank car deliveries to top out around 7,000 — but that was before the revised GDP rate of 4 per-

We expect steel prices to decline in 2005 and new box car orders may pick up as a result.

cent (up from 3 percent) in 2003 and 4.5 percent (up from 3.5 percent) for 2004. *2004 Actual: 8,600 vs. 7,000 projected. 2005 Projection: 9,000 (this time, we'll be closer to the mark).*

TTX still is ordering box cars, but at a slower rate than it did in 2003. The high price of new cars is probably the reason for the soft demand. We expect steel prices to decline in 2005 and new box car orders may pick up as a result. *2004 Actual: 5,400 vs. 6,500 projected. 2005 Projection: 5,500.*

The grain export surge — the first improvement in this traffic segment in more than 10 years — eliminated the surplus covered hopper fleet and both orders, and deliveries of new grain cars picked up in 2004. But here's a warning: History may not repeat itself and

grain traffic may fall back to its recent downward trend, with the new cars creating another temporary surplus. Small cube covered hopper deliveries and plastic pellet car deliveries remained on track and came in as expected. *2004 Actual: 4,800 vs. 4,000 projected. 2005 Projection: 10,300.*

STEEL PRICES TO FALL?

The world steel industry showed us that the United States no longer is the only economic engine on the planet. China has revitalized international trade in this commodity, and nobody's felt the effects quite like the United States, where the price of steel rose from about \$300 a ton in fall 2003 to \$770 a ton by late August. The price of new steel products soared; scrap metal prices did, too — as did rail traffic involving steel products and scrap iron in mill gondola cars. The rail car surplus was quickly eliminated and demand for new equipment increased. In 2005, new car construction activity should pick up, which will bump up the orders. *2004 Actual: 500 vs. 500 projected. 2005 Projection: 1,000.*

Coal traffic increased as originally expected, but it didn't surge along with the GDP growth rate. *2004 Actual gondolas: 4,700 vs. 4,500 projected; open top (OT) hoppers: 2,500 vs. 2,500 projected. 2005 Projection: 4,500 gondolas and 5,000 OT hoppers (reflecting the increase we should have seen this year).*

Lumber and steel traffic remained strong, and demand for flat cars stayed healthy. The traffic patterns continue to evolve, with more lumber products originating in Canada. Several hundred new aluminum autorack cars also were ordered this year despite the lackluster demand for new automobiles. *2004 Actual: 4,500 vs. 3,500 projected. 2005 Projection: 4,000.* **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 a principal in Rail Theory Forecasts, he can be reached at TKolstad@aol.com.