



# At any rate, a healthier market

**L**ast summer, rail-car lessors were experiencing one of their bleakest periods, with just two turnaround signs on the horizon: the castings shortage and U.S. Department of Agriculture's prediction of a bumper grain harvest. Although cursed by car builders, the castings shortage put an end to cut-throat pricing, enabling pricing discipline to return to the market. And the USDA forecast prompted concerned shippers and railroads to lease all stored grain cars.

What a difference eight months and a red-hot economy can make. New rail-car prices have risen above profitable levels for most car builders, lifting rates for all cars. But interest rates are still very low; lease rates for new cars — which act

In December, the crew problem prompted a front-page *Wall Street Journal* article detailing delayed rail shipments and rail-car shortages. The situation, WSJ reporters wrote, is reminiscent of the late 1990s, when railroad mergers caused service and rolling-stock problems that weren't fully appreciated at the time — and which led to the recent car surpluses and depressed lease rates.

Train delays eat up locomotives and cars; they create equipment shortages, even without a traffic increase. Add a 6 percent hike in intermodal traffic and a 10 percent boost in grain traffic to crew-shortage delays, and you've got a recipe for across-the-board equipment problems. You need more cars to handle the same level of business.

In contrast to the late 1990s, rail-

and will continue to rise (or hold steady) until crew delays are eliminated.

By summer 2003's end, when the last of the stored covered hoppers had been leased, rates for grain cars increased \$75 per month — to between \$200 and \$300 — for 4,750- and 5,150-cubic-foot cars. By year end, it wasn't uncommon to hear rates of \$275 to \$375 for some cars.

## DON'T EXPECT SPEC BUYING

A \$375 to \$400 full-service rate for 286k cars won't encourage too many lessors to speculate on these cars, but the trend is encouraging for lessors losing money from these cars' low lease rates. Mill gon rates were up 10 percent by 2003's end — before the steel tariffs were removed — and should continue to improve as long as train delays per-



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as a ceiling on overall lease rates — are still below pre-recession levels, effectively capping lease rates for all other cars.

Lessors can't expect a return to good times overnight, but federal budget and current account deficits will remedy the low interest rate problem soon enough. As interest rates rise — as they must, at some point — lease rates will increase, as well.

## CREW CRUNCH DRIVES RATES

The near-term outlook would not be as rosy without a little help from railroads. By pushing for increased labor productivity, roads created crew shortages for themselves; in this age of two-man crews, it'll take them a while to address the shortages.

roads have enough underutilized cars to work with until summer, when the crew-shortage problem should be resolved, some spot shortages (and loud shipper complaints) notwithstanding. But even if shortages were widespread, car builders' backlogs will preclude a new-car solution before 2005. The real danger is that lessors might think the shortages reflect long-term demand and order more rail cars for 2005 than the traffic, post crew-delay problem, could absorb. Then we might have a repeat of the most recent problem of too many cars and too few lessees.

For now, the surpluses that plagued the covered hopper, mill gondola, tank and coal car fleets have lessened or disappeared. Lease rates have increased

Lessees who became accustomed to full-service rates for 286k equipment as low as \$250 soon will view a \$350 rate as a bargain. Even rates on 263k center-beam flat-cars, a type that might have suffered from the flood of newly built 286k cars, have tightened.

"They are short as hen's teeth," says an official at one regional carrier.

Coal cars — especially rotary gondola and rapid-discharge hopper cars — are particularly vulnerable to train delays, considering the number of roundtrips these cars make in a year. Lease rates already had increased due to the rise in new-car prices, but look for additional increases; there were no surplus aluminum cars when the train delays started. **PR**

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