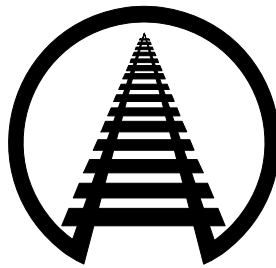


Rail Time Indicators

*A Review of Key Economic Trends
Shaping Demand for Rail Transportation*



**Policy & Economics Department
Association of American Railroads
Washington, DC**

December 6, 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.

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.

If you have questions or comments about the content of *Rail Time Indicators*, please contact Dan Keen (dkeen@aar.org) or Shannon Stare (ssstare@aar.org).

The last six editions of *Rail Time Indicators* are available on the AAR web site [here](#).

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.

Copyright © 2010 by the Association of American Railroads. Reproduction or retransmittal of *Rail Time Indicators* within a company for internal use is allowed, as is reasonable redistribution outside a company (for example, passing it on to someone you think might be interested in it).

Unless approved by the AAR, reproduction or retransmittal for commercial use is prohibited except for short excerpts or quotations.

Uploading of *Rail Time Indicators* to a public web site is prohibited unless approved by the AAR.

Information in *Rail Time Indicators* is obtained from sources believed to be reliable. However, the Association of American Railroads makes no representations as to the accuracy or completeness of such information and assumes no liability for errors or omissions.

SUMMARY OF MOST RECENT DATA

(green= generally positive news; red = generally negative news)¹

Economic Indicator	Most Recent Data
U.S. Freight Rail Traffic (p. 2)	<u>Not Seasonally Adjusted</u> : Carloads in November 2010 ↑ 4.5% over November 2009; intermodal in November 2010 ↑ 11.3% over November 2009. <u>Seasonally Adjusted</u> : Carloads in November 2010 ↓ 1.1% from October 2010; intermodal in November 2010 ↓ 0.4% from October 2010.
Canadian Freight Rail Traffic (p. 3)	<u>Not Seasonally Adjusted</u> : Carloads in November 2010 ↑ 5.1% over November 2009; intermodal in Nov. 2010 ↑ 13.0% over Nov. 2009. <u>Seasonally Adjusted</u> : Carloads in November 2010 ↓ 0.2% from October 2010; intermodal in November 2010 ↓ 1.0% from October 2010.
Gross Domestic Product (p. 16)	↑ 2.5% in Q3 2010 according to the second preliminary estimate released November 23.
Purchasing Managers Index (p. 17)	↓ to 56.6 in November 2010 from 56.9 in October 2010. New orders ↓ to 56.6 in November 2010 from 58.9 in October 2010.
Manufacturing Inventories and Sales (p. 18)	Manufacturing sales ↑ 0.3% , manufacturing inventories ↑ 0.9% , and inventory-to-sales ratio ↑ 0.5% in October 2010 from September 2010.
Industrial Production (p. 19)	Virtually unchanged in October 2010 from September 2010.
Capacity Utilization (p. 20)	Unchanged at 74.8% in October 2010 from September 2010. Has been at or extremely close to 74.8% for four straight months.
Employment (p. 21)	↑ 39,000 jobs in November 2010 over October 2010. Many analysts expected a gain of 140,000 or more jobs.
Unemployment Rate (p. 21)	↑ to 9.8% in November 2010 from 9.6% in October 2010.
Class I Railroad Employment (p. 23)	↑ 191 to 154,285 employees in October 2010.
Consumer Confidence (p. 23)	↑ to 54.1 in November 2010 from 49.9 in October 2010.
Retail Sales (p. 24)	↑ 1.2% (\$4.5 billion) in October 2010 over September 2010. Most of the increase was due to higher auto and related sales.
Light Vehicle Sales (p. 26)	Flat at 12.2 million in November 2010, the same as in October 2010 but up 12.8% from November 2009.
Housing Starts (p. 27)	↓ 11.7% in October 2010 to 519,000 from 588,000 in September 2010.
Consumer Price Index (p. 28)	↑ 0.2% in October 2010 over September 2010; “core” inflation was flat .
Rail Freight Cars in Storage (p. 29)	↓ to 317,810 on December 1, 2010 (20.8% of the fleet), down 465 cars from November 1, 2010.

¹ It's not always clear if economic news is good or bad. For example, 39,000 new jobs were created in November. That's good news if the alternative is a loss of jobs, but it's less impressive if you consider that that level of job growth is woefully inadequate to make a dent in total unemployment.

U.S. AND CANADIAN FREIGHT RAILROAD TRAFFIC

Who releases it and when?

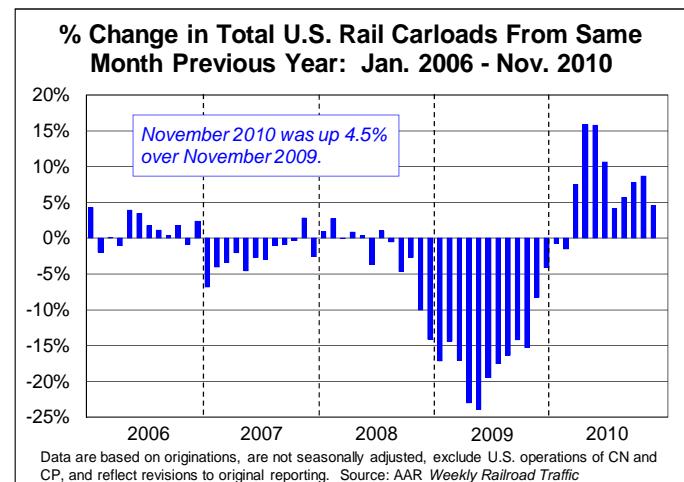
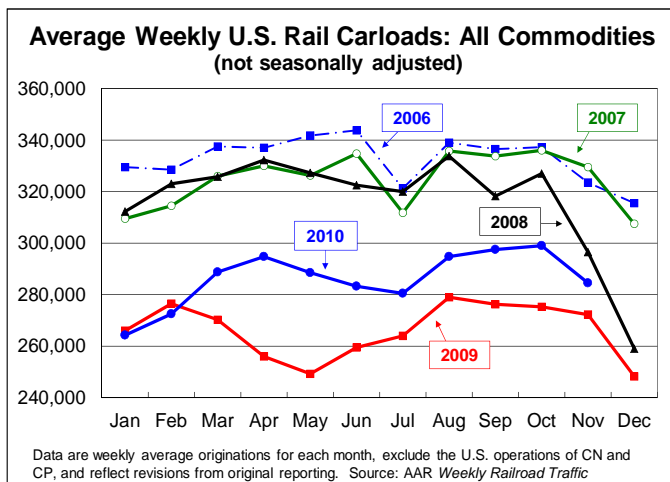
- The Association of American Railroads (AAR) releases its *Weekly Railroad Traffic* report every Thursday morning. The report contains rail traffic data for the previous week. Weekly data are aggregated into monthly figures in *Rail Time Indicators*. When comparing year-over-year rail traffic, comparisons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

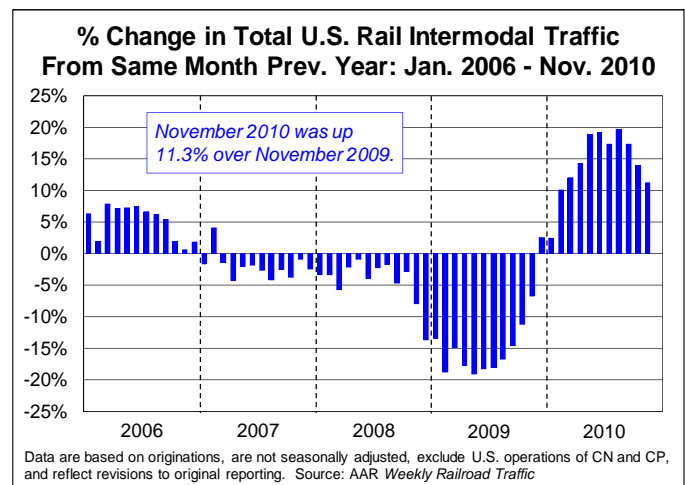
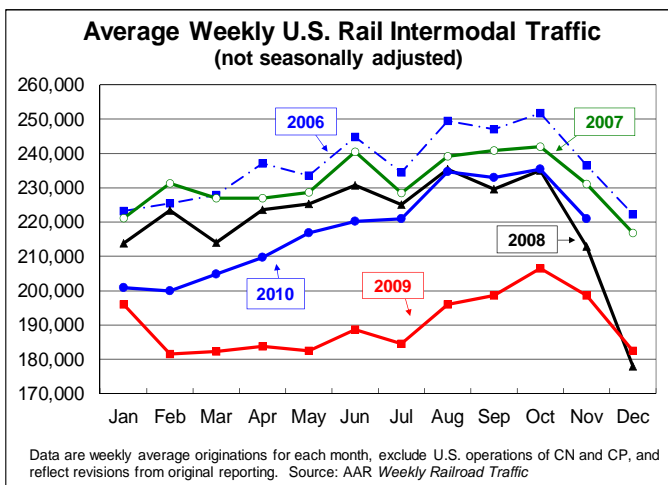
- U.S. freight railroads originated an average of 284,407 carloads per week in November 2010 (see chart below left), for a total of 1,137,626 carloads for the month. That’s **up 4.5% over November 2009**. November was the ninth straight month with higher year-over-year average weekly rail carloads (see chart below right), something that hasn’t happened since 2004.



- In previous editions of *Rail Time Indicators*, we compared monthly rail traffic in 2010 with rail traffic in the same month in 2009 and 2008. We included comparisons with 2008 because 2008 represented a more “normal” level of rail traffic than the severely depressed levels of 2009. However, as the chart above left shows, rail traffic plunged in November 2008 — so much so, in fact, that from this point forward, 2008 no longer represents a “normal” level of rail traffic. For those interested in 2008 comparisons, the tables on pages 5, 6, and 7 still include 2008 data.
- November 2010 (and November 2009, for that matter) includes Thanksgiving week, which is always one of the lowest-volume weeks of the year for U.S. railroads. So far in 2010, only the week including January 1 and the week including the 4th of July have had lower traffic volumes than Thanksgiving week.
- On an unadjusted basis, **14 of the 19** commodity categories saw **carload gains in November 2010 compared with November 2009**. Traffic gains in November were led by many of the same commodity categories that have paced rail traffic gains for a number of months, including coal (up 2.9%, or 14,690 carloads); metallic ores (up 86.0%, or 14,561 carloads); crushed stone, sand,

and gravel (up 18.7%, or 10,122 carloads); and primary metal products (mainly steel, up 26.0%, or 6,717 carloads). The tables and charts beginning on page 5 have more commodity detail.

- On a **seasonally adjusted basis, U.S. rail carloads were down 1.1% in November 2010 from October 2010** (see the top left chart on page 14). Seasonally-adjusted carloads on U.S. carriers have fallen (though by relatively small amounts) three of the past four months.²
- **Year-to-date carloads** through week 47 in 2010 (the end of November) were 13.46 million, **up 7.1%** from the 12.57 million through week 47 in 2009.
- In November, U.S. railroads originated **883,755 intermodal trailers and containers**, an average of 220,939 per week — **up 11.3% over November 2009**.
- On a non-seasonally adjusted basis, there is always a big decline in intermodal traffic in November from October, partly because many of the goods retailers stock for holiday sales are shipped in September and October and partly because of Thanksgiving. The week including Thanksgiving this year was the lowest-volume intermodal week of the year for U.S. railroads.



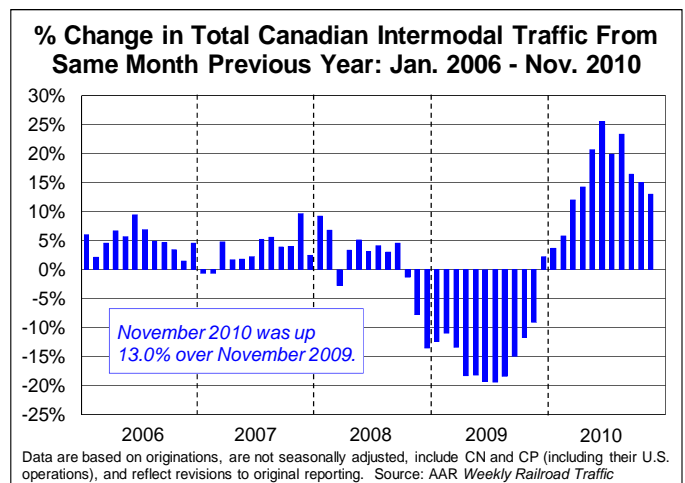
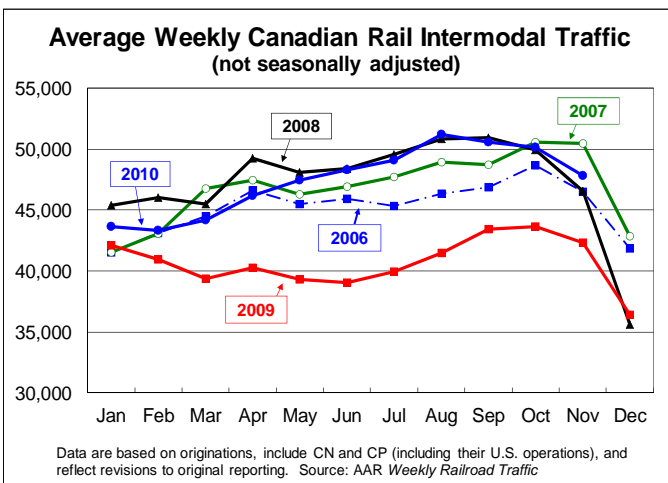
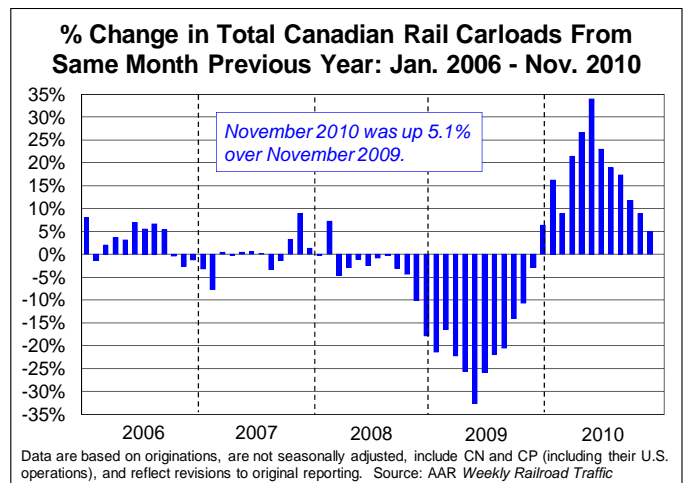
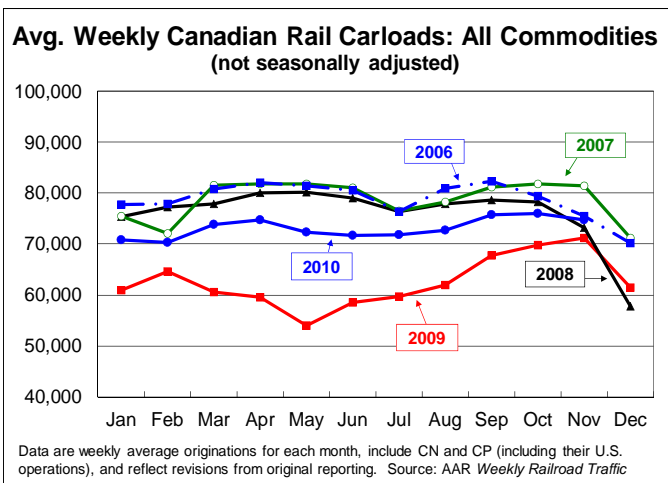
- **Year-to-date U.S. intermodal traffic** through the end of November was 10.25 million trailers and containers, **up 14.3%** from the 8.96 million through week 47 in 2009.
- **Seasonally adjusted U.S. rail intermodal traffic was down 0.4% in November 2010 from October 2010** (see top right chart on page 14), its third straight monthly decline. As with carloads, recent declines have been small.
- Combined U.S. carload and intermodal traffic has risen each month in 2010 (see chart bottom right of page 5). The last time combined traffic had risen 11 straight months was January 2006.

What are the latest numbers for Canadian railroads?

- On a non-seasonally adjusted basis, Canadian railroads (including their extensive U.S. operations) originated 298,949 carloads of freight in November 2010. That’s an average of 74,737 carloads per week, up 5.1% over November 2009’s 71,144 average. Thanksgiving week was the lowest-volume carload week of the year for Canadian railroads.

² As a reminder, because of the nature of the AAR’s weekly rail traffic data and the nature of rail traffic (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, some commodity categories can exhibit wide swings in carloads from month to month that are likely not related to seasonal variations), the seasonal-adjustment process for rail traffic may involve more complications than for 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.

- The 5.1% year-over-year gain in November 2010 over November 2009 is the lowest such increase so far in 2010, but as we mentioned last month, that's in part due to tougher comparisons. As the top left chart below shows, Canadian carload traffic rose steadily in the second half of 2009.
- Canadian **carloads** in November 2010 were **higher in 12 of the 19 commodity categories** compared with November 2009. The largest absolute gains were again in chemicals (up 8,223 carloads, or 15.5%), followed by coal (up 4,002 carloads, or 13.4%), and metallic ores (up 2,812 carloads, or 5.6%). See page 6 for more commodity-level detail for Canadian railroads.
- Canadian railroads originated 191,297 intermodal **trailers and containers** in November 2010, an average of 47,824 intermodal units per week. That's **up 13.0% over November 2009**.
- **Seasonally adjusted total Canadian rail carloads in November 2010 were down 0.2% from October 2010, while seasonally adjusted intermodal volumes in November 2010 were down 1.0% from October 2010.** (See charts in the middle row of page 14.) Seasonally-adjusted carloads on Canadian carriers have fallen (though by relatively small amounts) three of the past four months. Seasonally adjusted intermodal shipments have fallen three straight months.
- November was the 12th straight month in which carloads and intermodal units combined for Canadian railroads grew (see chart on the bottom right on page 6). That last happened in December 2004.

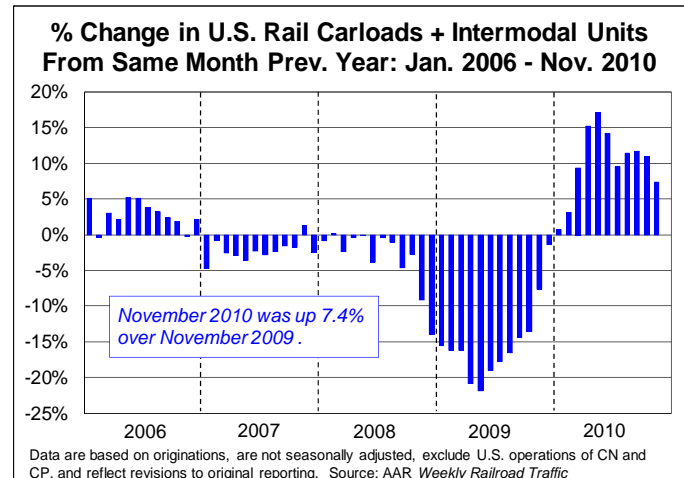
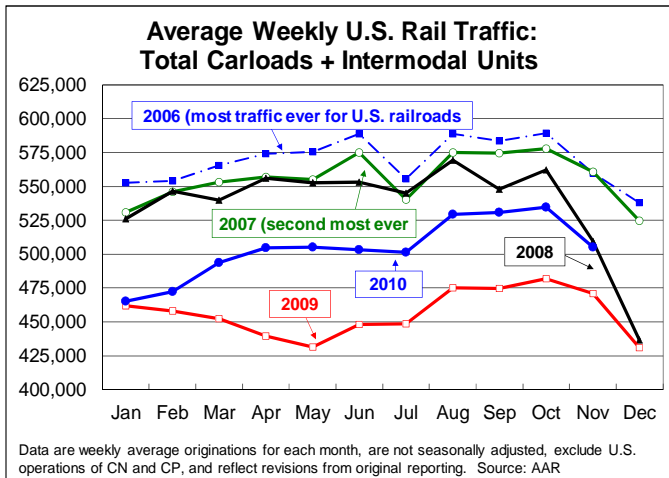


U.S. RAIL TRAFFIC: NOVEMBER 2010*
(4 weeks ending November 27, 2010)

Commodity	Nov. '10	Nov. '09	Nov. '08	Difference		% Change	
				'10-'09	'10-'08	'10-'09	'10-'08
Agricultural & food products	165,677	167,659	154,142	-1,982	11,535	-1.2%	7.5%
Grain	95,548	98,122	86,505	-2,574	9,043	-2.6%	10.5%
Farm products excl. grain	4,214	3,705	3,713	509	501	13.7%	13.5%
Grain mill products (1)	33,666	34,393	32,679	-727	987	-2.1%	3.0%
Food products	32,249	31,439	31,245	810	1,004	2.6%	3.2%
Chemicals and petroleum	133,437	126,876	120,475	6,561	12,962	5.2%	10.8%
Chemicals	111,429	106,114	99,439	5,315	11,990	5.0%	12.1%
Petroleum products (2)	22,008	20,762	21,036	1,246	972	6.0%	4.6%
Coal	525,484	510,794	589,560	14,690	-64,076	2.9%	-10.9%
Forest products	38,108	36,711	44,794	1,397	-6,686	3.8%	-14.9%
Primary forest products (3)	6,224	6,853	7,858	-629	-1,634	-9.2%	-20.8%
Lumber & wood products	9,083	8,303	10,596	780	-1,513	9.4%	-14.3%
Pulp & paper products	22,801	21,555	26,340	1,246	-3,539	5.8%	-13.4%
Metallic ores and metals	77,210	53,753	65,481	23,457	11,729	43.6%	17.9%
Metallic ores (4)	31,492	16,931	23,728	14,561	7,764	86.0%	32.7%
Coke	13,141	10,962	13,957	2,179	-816	19.9%	-5.8%
Primary metal products (5)	32,577	25,860	27,796	6,717	4,781	26.0%	17.2%
Motor vehicles & parts	45,586	53,436	53,492	-7,850	-7,906	-14.7%	-14.8%
Nonmetallic minerals & prod.	106,439	96,898	112,658	9,541	-6,219	9.8%	-5.5%
Crushed stone, gravel, sand	64,393	54,271	68,679	10,122	-4,286	18.7%	-6.2%
Nonmetallic minerals (6)	15,532	18,462	15,431	-2,930	101	-15.9%	0.7%
Stone, clay & glass prod. (7)	26,514	24,165	28,548	2,349	-2,034	9.7%	-7.1%
Other	45,685	42,575	45,375	3,110	310	7.3%	0.7%
Waste & scrap materials (8)	28,830	25,877	25,100	2,953	3,730	11.4%	14.9%
All other carloads	16,855	16,698	20,275	157	-3,420	0.9%	-16.9%
TOTAL ALL CARLOADS	1,137,626	1,088,702	1,185,977	48,924	-48,351	4.5%	-4.1%
Trailers	137,146	128,642	181,792	8,504	-44,646	6.6%	-24.6%
Containers	746,609	665,542	669,725	81,067	76,884	12.2%	11.5%
TOTAL ALL INTERMODAL	883,755	794,184	851,517	89,571	32,238	11.3%	3.8%

(1) - flour, animal feed, corn syrup, corn starch, soybean meal, etc. (5) - primarily iron & steel products; some aluminum, copper, etc.
 (2) - liquefied gases, asphalt, fuel oil, lubricating oil, jet fuel, etc. (6) - phosphate rock, rock salt, crude sulphur, clay, etc.
 (3) - wood raw materials such as pulpwood and wood chips (7) - cement, ground earths or minerals, gypsum, etc.
 (4) - overwhelmingly iron ore, but some aluminum ore, copper ore, 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*

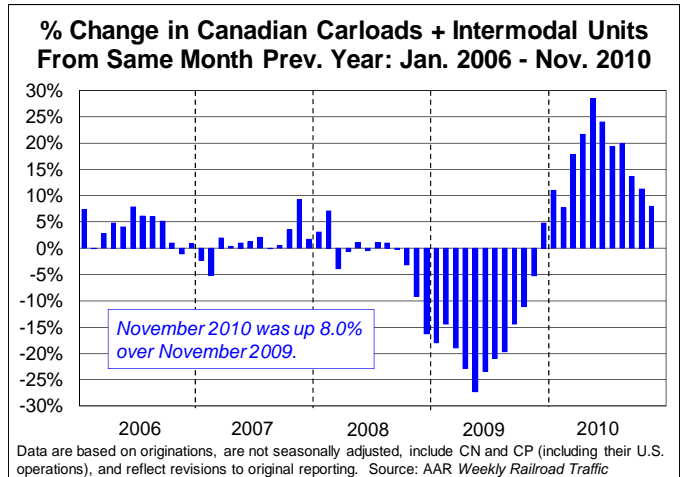
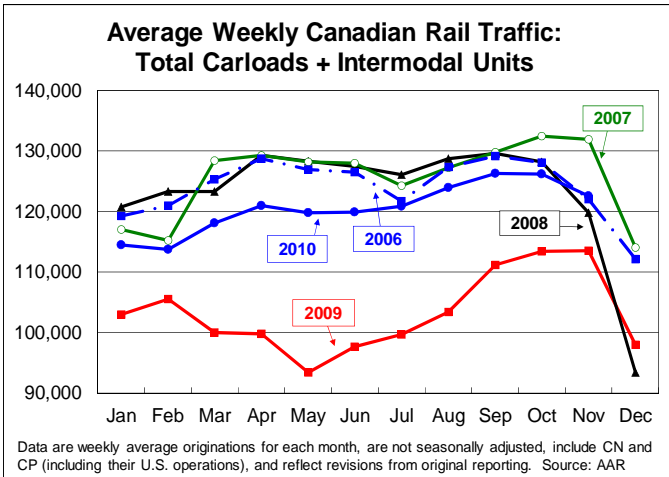


CANADIAN RAIL TRAFFIC: NOVEMBER 2010*
(4 weeks ending November 27, 2010)

Commodity	Nov. '10	Nov. '09	Nov. '08	Difference		% Change	
				'10-'09	'10-'08	'10-'09	'10-'08
Agricultural & food products	66,143	68,633	67,632	-2,490	-1,489	-3.6%	-2.2%
Grain	37,990	40,346	43,118	-2,356	-5,128	-5.8%	-11.9%
Farm products excl. grain	11,742	13,715	10,828	-1,973	914	-14.4%	8.4%
Grain mill products (1)	5,934	5,749	5,580	185	354	3.2%	6.3%
Food products	10,477	8,823	8,106	1,654	2,371	18.7%	29.2%
Chemicals and petroleum	63,698	55,704	57,124	7,994	6,574	14.4%	11.5%
Chemicals	61,433	53,210	54,681	8,223	6,752	15.5%	12.3%
Petroleum products (2)	2,265	2,494	2,443	-229	-178	-9.2%	-7.3%
Coal	33,882	29,880	32,535	4,002	1,347	13.4%	4.1%
Forest products	28,061	27,313	32,285	748	-4,224	2.7%	-13.1%
Primary forest products (3)	5,217	6,189	7,349	-972	-2,132	-15.7%	-29.0%
Lumber & wood products	8,298	7,637	9,878	661	-1,580	8.7%	-16.0%
Pulp & paper products	14,546	13,487	15,058	1,059	-512	7.9%	-3.4%
Metallic ores and metals	63,145	59,424	57,201	3,721	5,944	6.3%	10.4%
Metallic ores (4)	53,013	50,201	46,145	2,812	6,868	5.6%	14.9%
Coke	2,394	2,153	2,576	241	-182	11.2%	-7.1%
Primary metal products (5)	7,738	7,070	8,480	668	-742	9.4%	-8.8%
Motor vehicles & parts	17,947	17,965	17,601	-18	346	-0.1%	2.0%
Nonmetallic minerals & prod.	17,457	17,285	20,206	172	-2,749	1.0%	-13.6%
Crushed stone, gravel, sand	8,834	7,895	9,424	939	-590	11.9%	-6.3%
Nonmetallic minerals (6)	3,621	4,716	5,592	-1,095	-1,971	-23.2%	-35.2%
Stone, clay & glass prod. (7)	5,002	4,674	5,190	328	-188	7.0%	-3.6%
Other	8,616	8,372	8,327	244	289	2.9%	3.5%
Waste & scrap materials (8)	4,971	3,840	4,168	1,131	803	29.5%	19.3%
All other carloads	3,645	4,532	4,159	-887	-514	-19.6%	-12.4%
TOTAL ALL CARLOADS	298,949	284,576	292,911	14,373	6,038	5.1%	2.1%
Trailers	6,356	6,476	7,053	-120	-697	-1.9%	-9.9%
Containers	184,941	162,855	179,267	22,086	5,674	13.6%	3.2%
TOTAL ALL INTERMODAL	191,297	169,331	186,320	21,966	4,977	13.0%	2.7%

- (1) - flour, animal feed, corn syrup, corn starch, soybean meal, etc. (5) - primarily iron & steel products; some aluminum, copper, etc.
 (2) - liquefied gases, asphalt, fuel oil, lubricating oil, jet fuel, etc. (6) - phosphate rock, rock salt, crude sulphur, clay, etc.
 (3) - wood raw materials such as pulpwood and wood chips (7) - cement, ground earths or minerals, gypsum, etc.
 (4) - overwhelmingly iron ore, but some aluminum ore, copper ore, 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: NOVEMBER 2010*

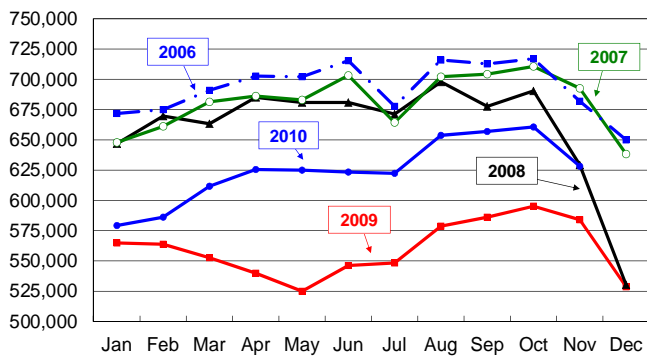
(4 weeks ending November 27, 2010)

Commodity	Nov. '10	Nov. '09	Nov. '08	Difference		% Change	
				'10-'09	'10-'08	'10-'09	'10-'08
Agricultural & food products	231,820	236,292	221,774	-4,472	10,046	-1.9%	4.5%
Grain	133,538	138,468	129,623	-4,930	3,915	-3.6%	3.0%
Farm products excl. grain	15,956	17,420	14,541	-1,464	1,415	-8.4%	9.7%
Grain mill products (1)	39,600	40,142	38,259	-542	1,341	-1.4%	3.5%
Food products	42,726	40,262	39,351	2,464	3,375	6.1%	8.6%
Chemicals and petroleum	197,135	182,580	177,599	14,555	19,536	8.0%	11.0%
Chemicals	172,862	159,324	154,120	13,538	18,742	8.5%	12.2%
Petroleum products (2)	24,273	23,256	23,479	1,017	794	4.4%	3.4%
Coal	559,366	540,674	622,095	18,692	-62,729	3.5%	-10.1%
Forest products	66,169	64,024	77,079	2,145	-10,910	3.4%	-14.2%
Primary forest products (3)	11,441	13,042	15,207	-1,601	-3,766	-12.3%	-24.8%
Lumber & wood products	17,381	15,940	20,474	1,441	-3,093	9.0%	-15.1%
Pulp & paper products	37,347	35,042	41,398	2,305	-4,051	6.6%	-9.8%
Metallic ores and metals	140,355	113,177	122,682	27,178	17,673	24.0%	14.4%
Metallic ores (4)	84,505	67,132	69,873	17,373	14,632	25.9%	20.9%
Coke	15,535	13,115	16,533	2,420	-998	18.5%	-6.0%
Primary metal products (5)	40,315	32,930	36,276	7,385	4,039	22.4%	11.1%
Motor vehicles & parts	63,533	71,401	71,093	-7,868	-7,560	-11.0%	-10.6%
Nonmetallic minerals & prod.	123,896	114,183	132,864	9,713	-8,968	8.5%	-6.7%
Crushed stone, gravel, sand	73,227	62,166	78,103	11,061	-4,876	17.8%	-6.2%
Nonmetallic minerals (6)	19,153	23,178	21,023	-4,025	-1,870	-17.4%	-8.9%
Stone, clay & glass prod. (7)	31,516	28,839	33,738	2,677	-2,222	9.3%	-6.6%
Other	54,301	50,947	53,702	3,354	599	6.6%	1.1%
Waste & scrap materials (8)	33,801	29,717	29,268	4,084	4,533	13.7%	15.5%
All other carloads	20,500	21,230	24,434	-730	-3,934	-3.4%	-16.1%
TOTAL ALL CARLOADS	1,436,575	1,373,278	1,478,888	63,297	-42,313	4.6%	-2.9%
Trailers	143,502	135,118	188,845	8,384	-45,343	6.2%	-24.0%
Containers	931,550	828,397	848,992	103,153	82,558	12.5%	9.7%
TOTAL ALL INTERMODAL	1,075,052	963,515	1,037,837	111,537	37,215	11.6%	3.6%

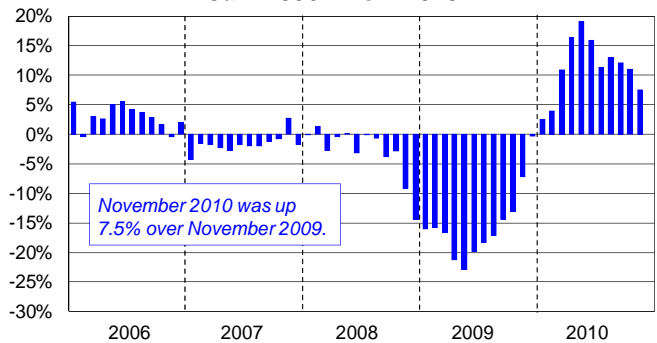
- (1) - flour, animal feed, corn syrup, corn starch, soybean meal, etc. (5) - primarily iron & steel products; some aluminum, copper, etc.
 (2) - liquefied gases, asphalt, fuel oil, lubricating oil, jet fuel, etc. (6) - phosphate rock, rock salt, crude sulphur, clay, etc.
 (3) - wood raw materials such as pulpwood and wood chips (7) - cement, ground earths or minerals, gypsum, etc.
 (4) - overwhelmingly iron ore, but some aluminum ore, copper ore, etc. (8) - scrap metal and paper, construction debris, ashes, etc.

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

**Average Weekly U.S. + Canadian Rail Traffic:
Total Carloads + Intermodal Units**

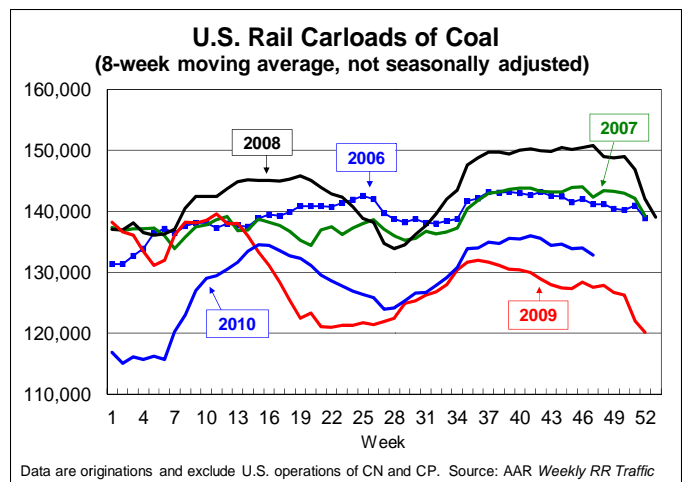
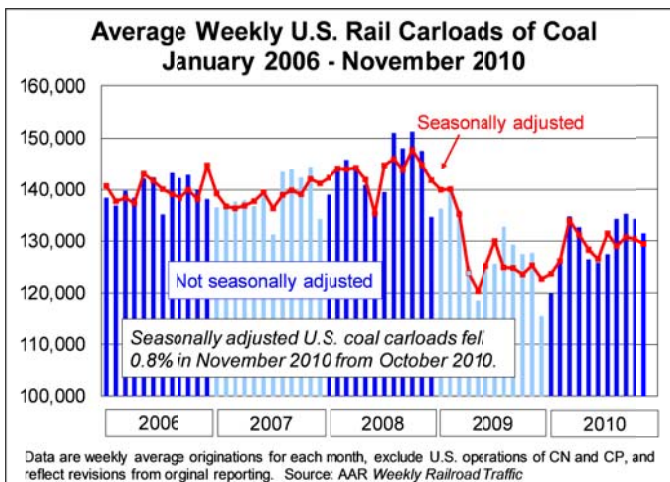
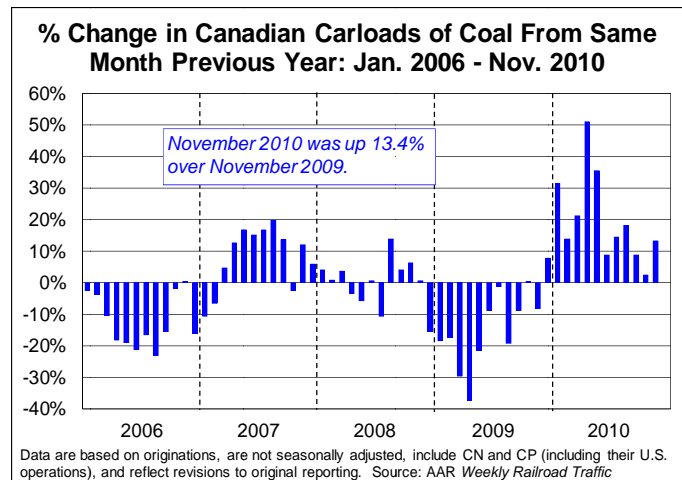
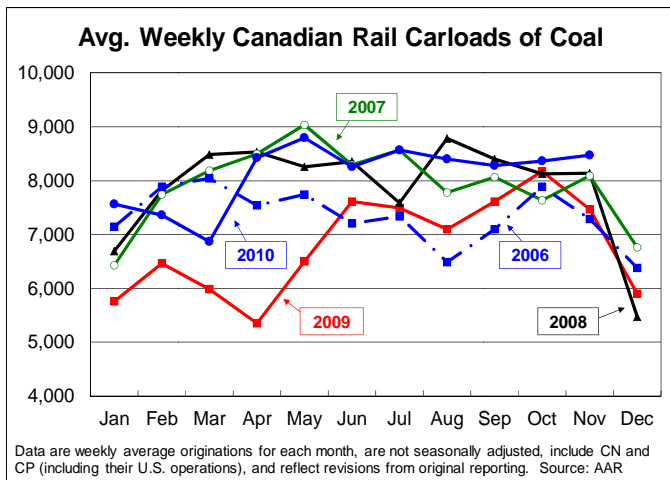
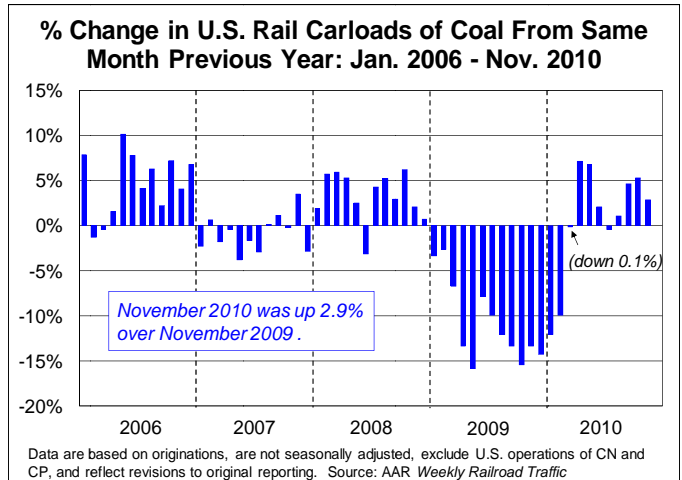
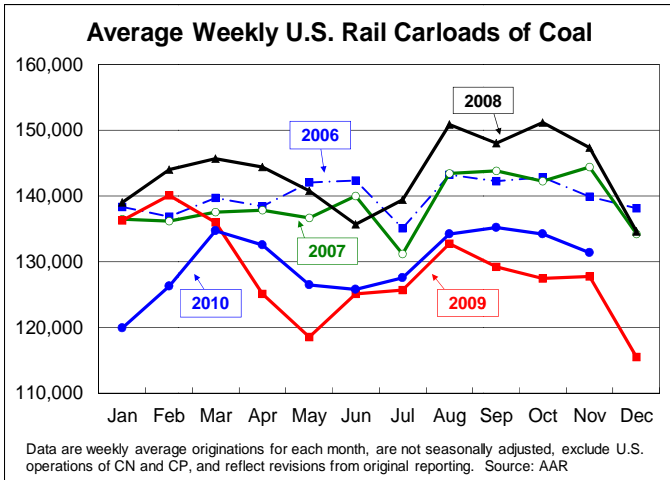


**% Change in Combined U.S. + Canadian Rail Carloads
+ Intermodal Units From Same Month Prev. Year:
Jan. 2006 - Nov. 2010**



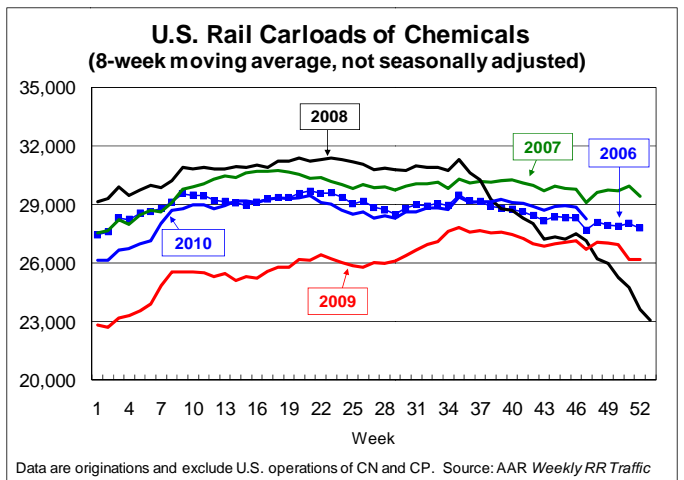
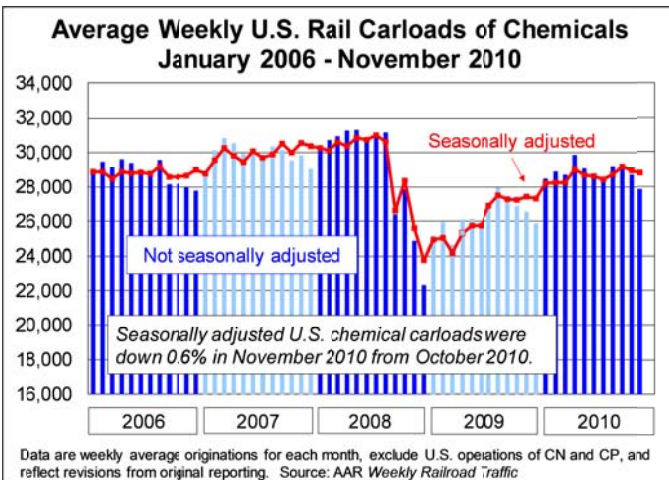
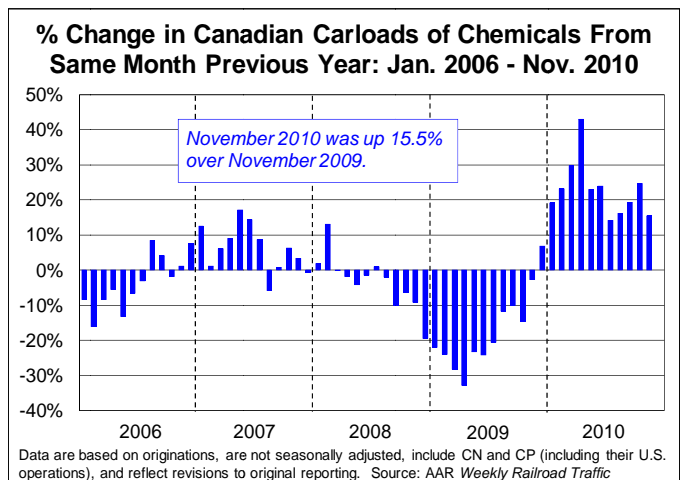
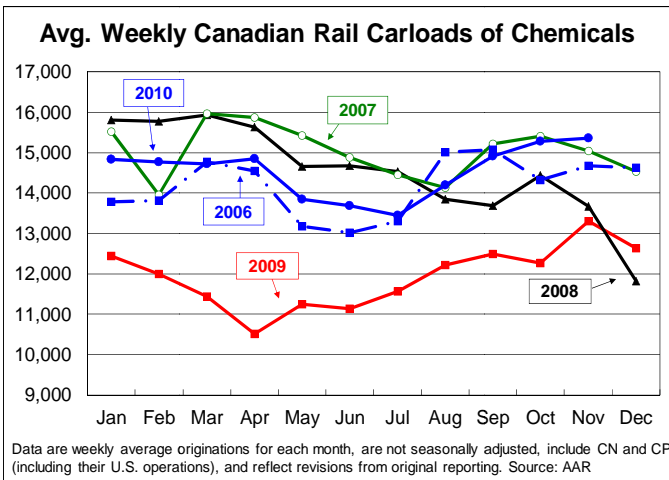
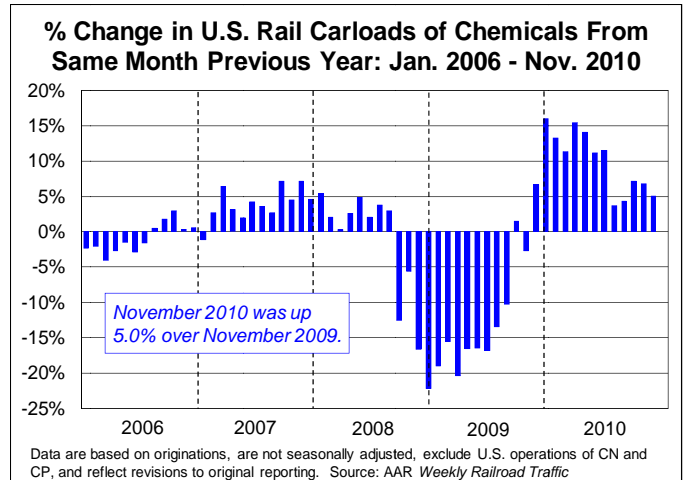
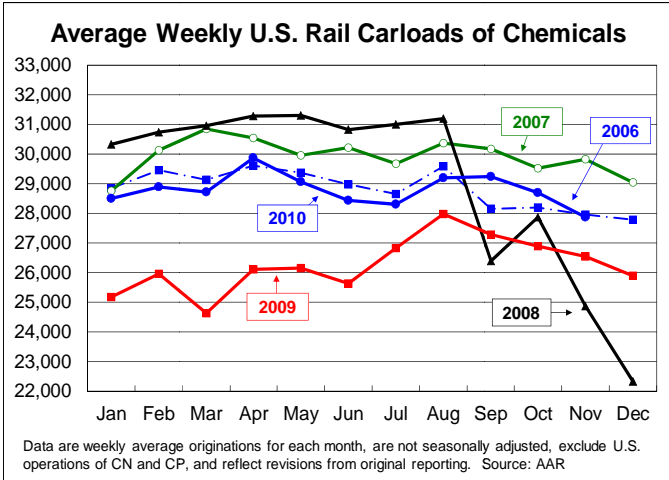
COAL

On a non-seasonally adjusted basis, U.S. railroads averaged 131,371 carloads of coal per week in November 2010, the lowest monthly average since July 2010 but up 2.9% over November 2009. Seasonally adjusted coal carloads were down 0.8% in November 2010 from October 2010. The chart on the bottom right shows 8-week moving averages for coal over the past several years.



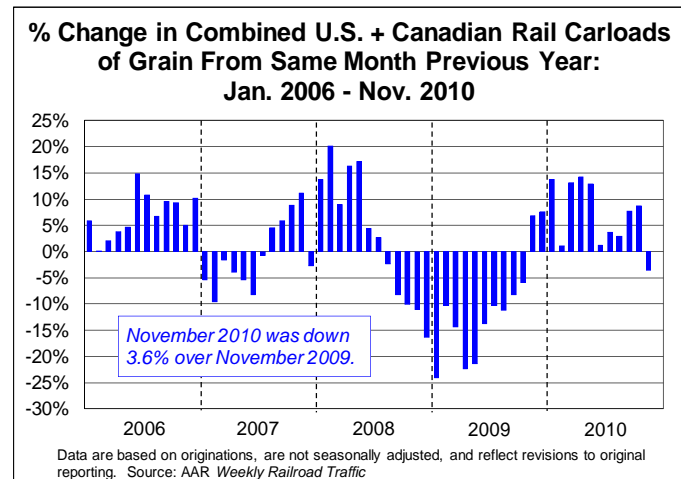
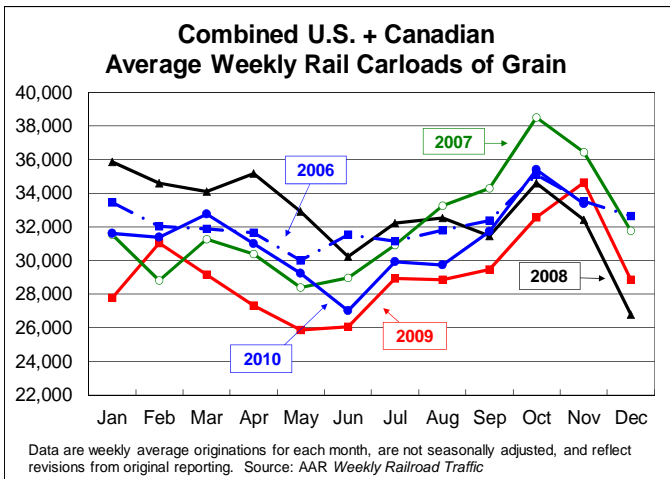
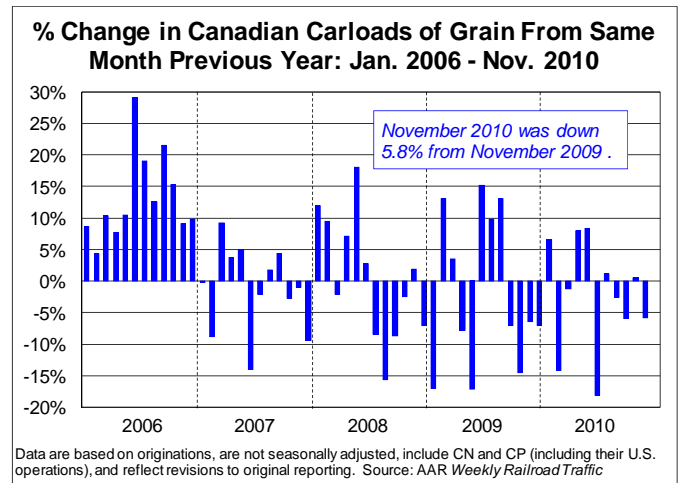
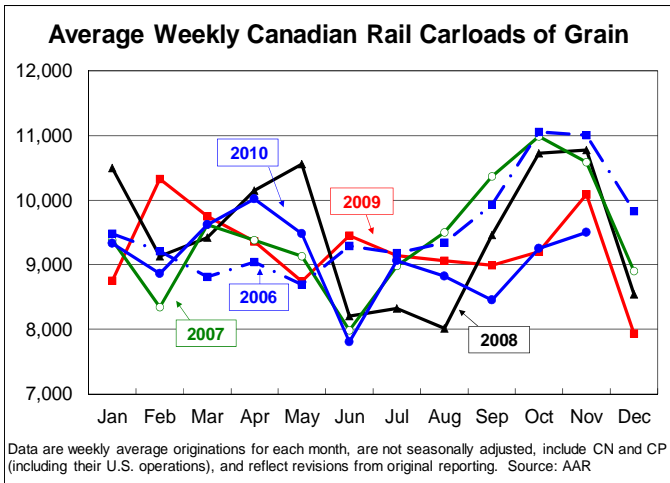
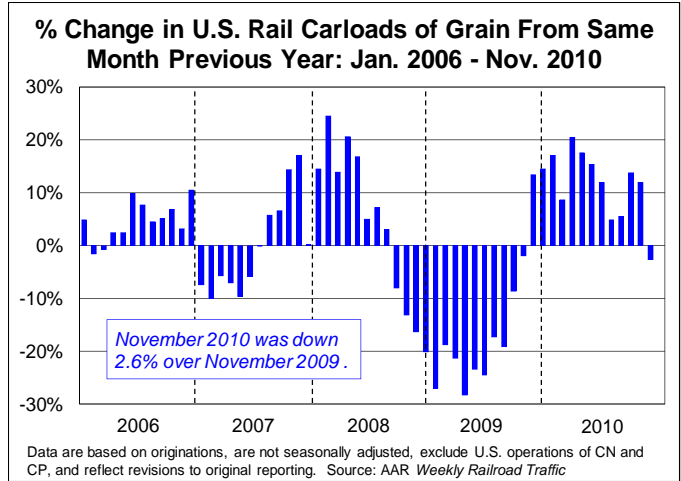
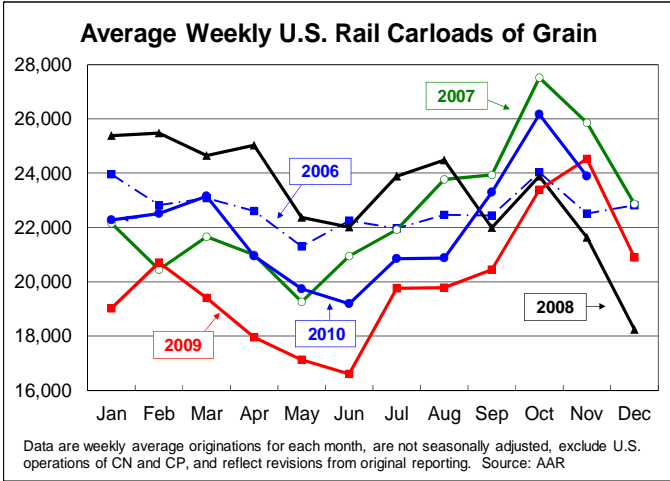
CHEMICALS

U.S. railroads originated 111,429 carloads of chemicals in November 2010, an average of 27,857 per week — up 5.0% over November 2009. On a seasonally adjusted basis, U.S. carloads of chemicals were down 0.6% in November 2010 from October 2010. Canadian carloads of chemicals averaged 15,358 in November 2010, their fourth straight monthly increase and the highest level ever for November. A large portion of chemical shipments on Canadian railroads is fertilizers or fertilizer-related.

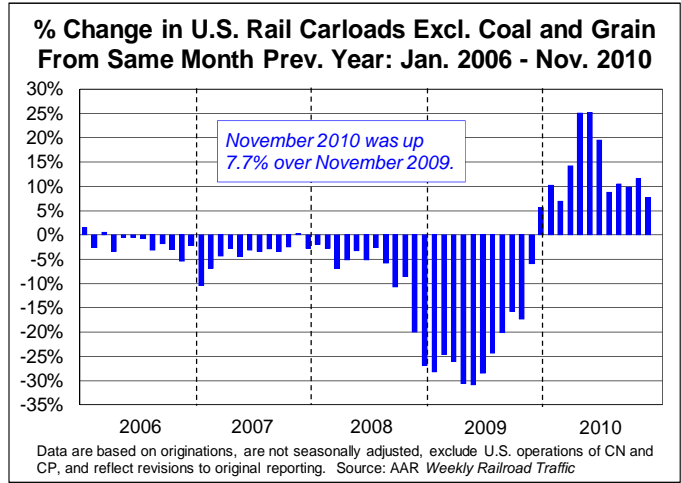
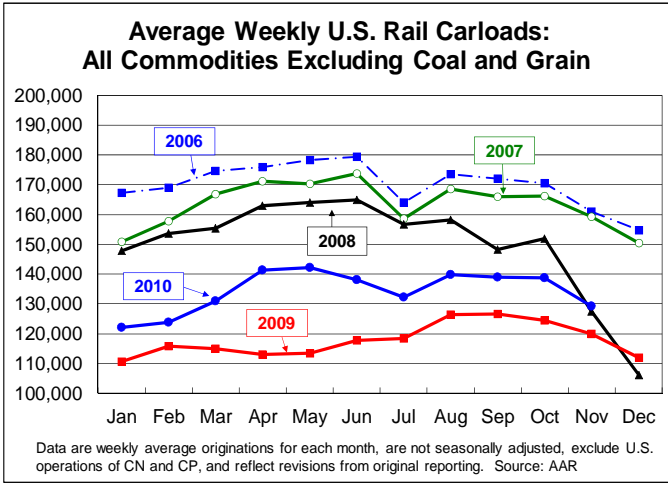


GRAIN

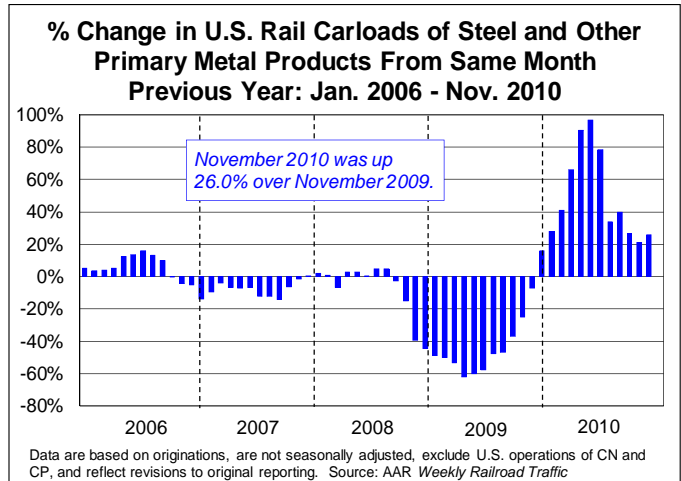
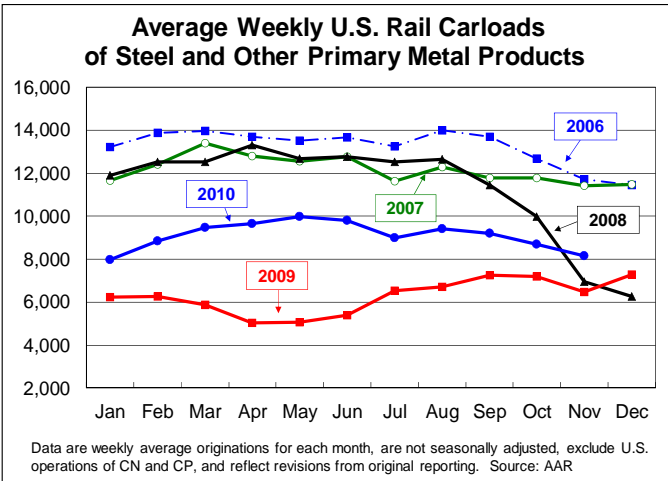
Average weekly grain carloads on U.S. railroads fell sharply from 26,167 in October 2010 to 23,887 in November 2010. Grain carloads almost always fall in November from October (2009 was an exception — see top left chart below) and November's figure was still the second highest of 2010. Grain accounted for 7.7% of U.S. non-intermodal carloads in 2010 through November; for Canadian railroads, grain accounted for 12.4%.



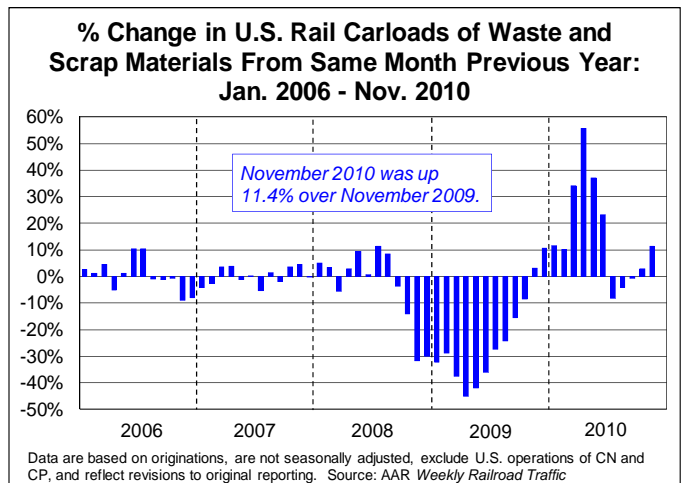
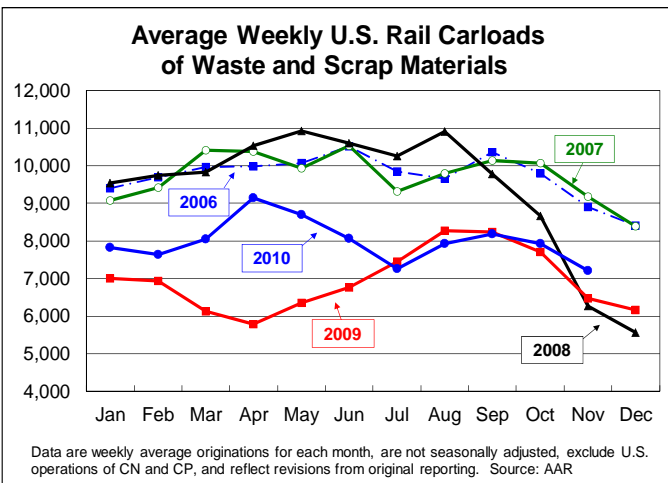
ALL COMMODITIES EXCLUDING COAL AND GRAIN



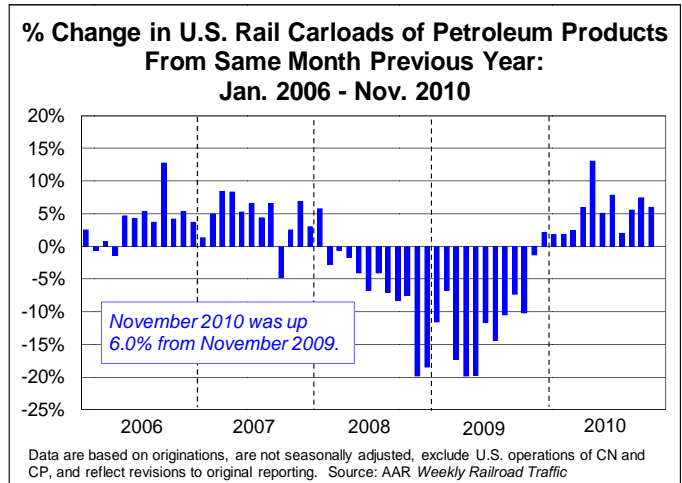
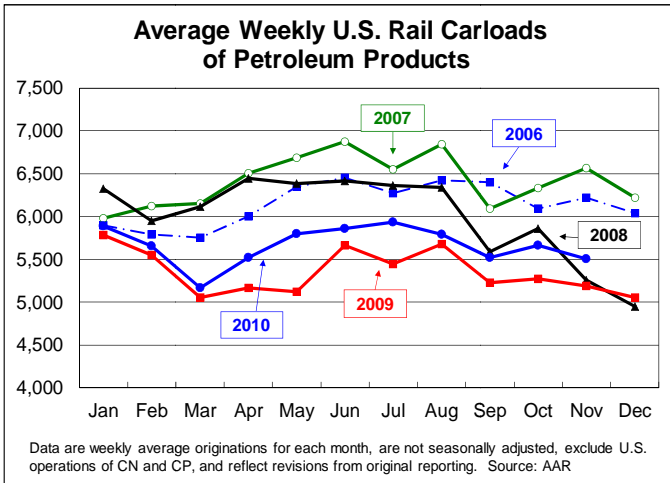
PRIMARY METAL PRODUCTS (MAINLY STEEL)



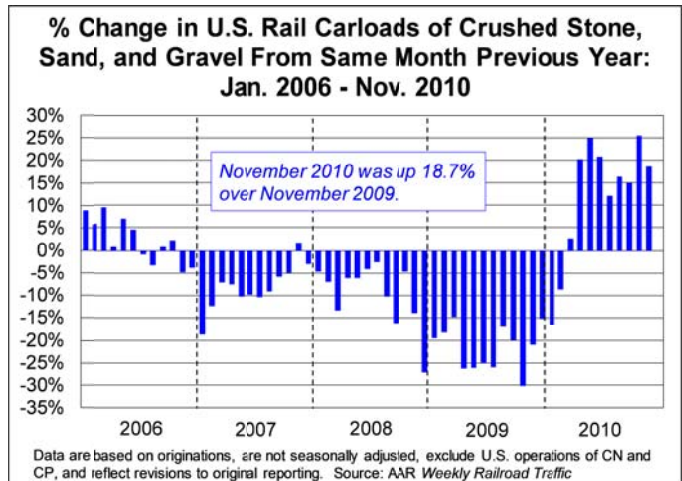
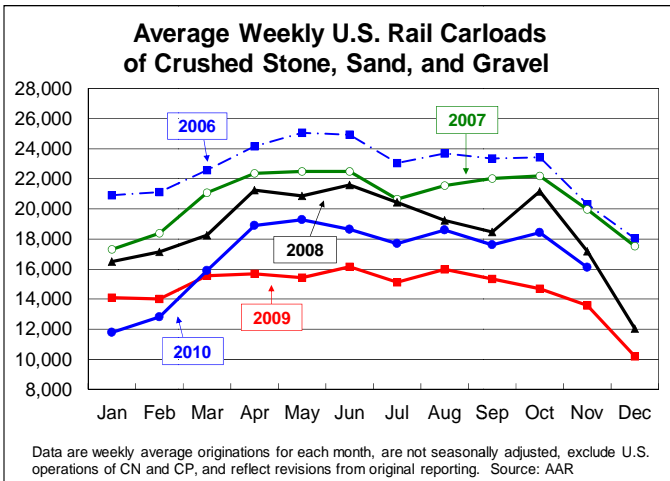
WASTE & SCRAP MATERIALS (SCRAP STEEL, SCRAP PAPER, CONSTRUCTION DEBRIS, ETC.)



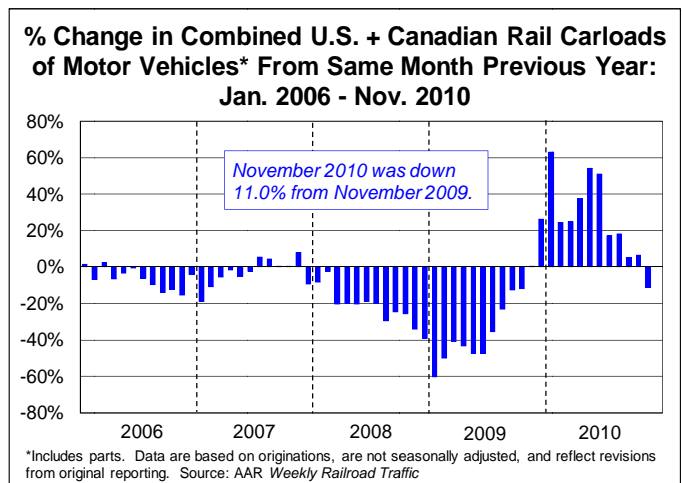
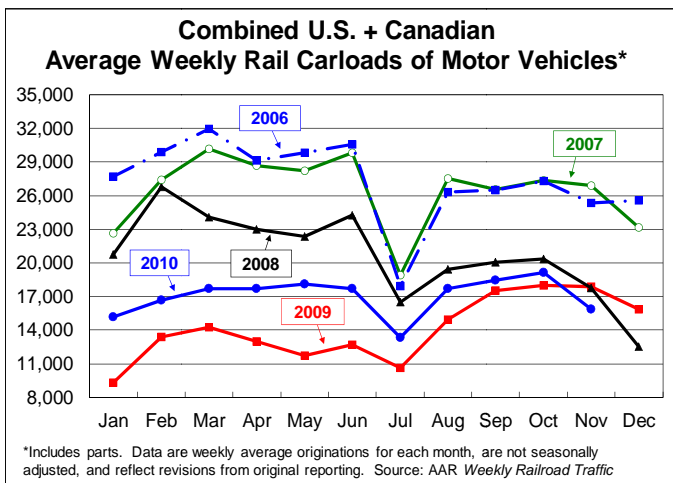
PETROLEUM PRODUCTS (LPGs, ASPHALT PRODUCTS, FUEL OIL, LUBRICATING OIL, ETC.)



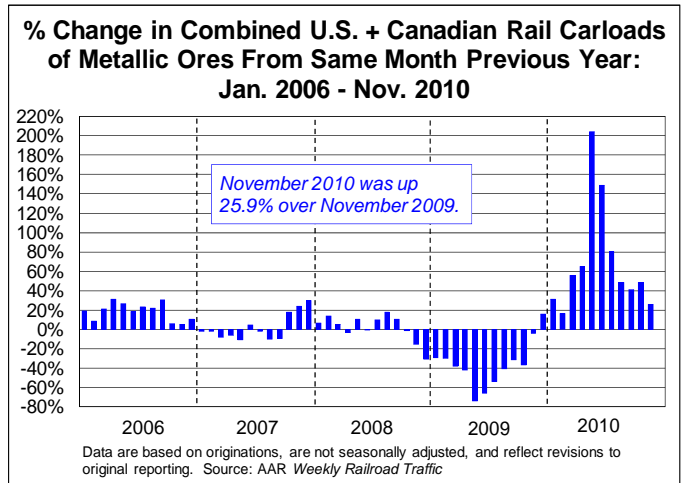
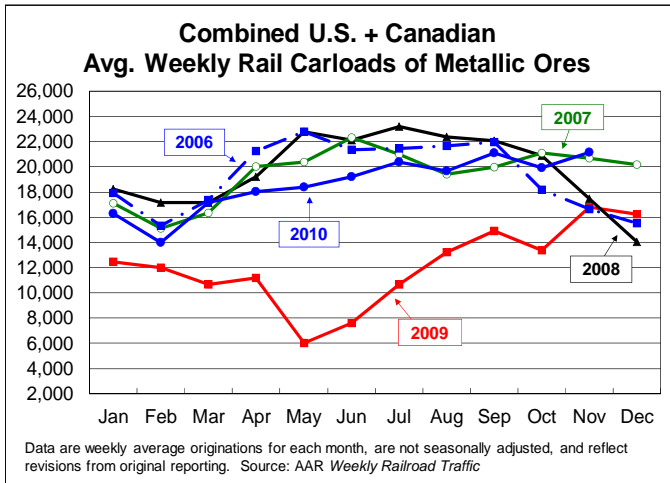
CRUSHED STONE, SAND, AND GRAVEL



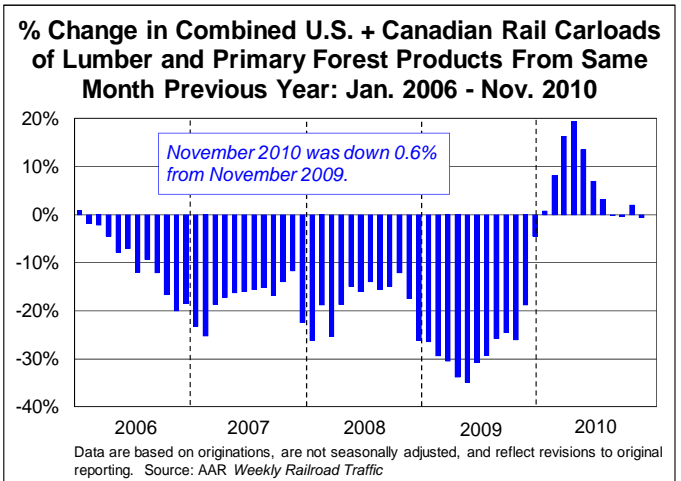
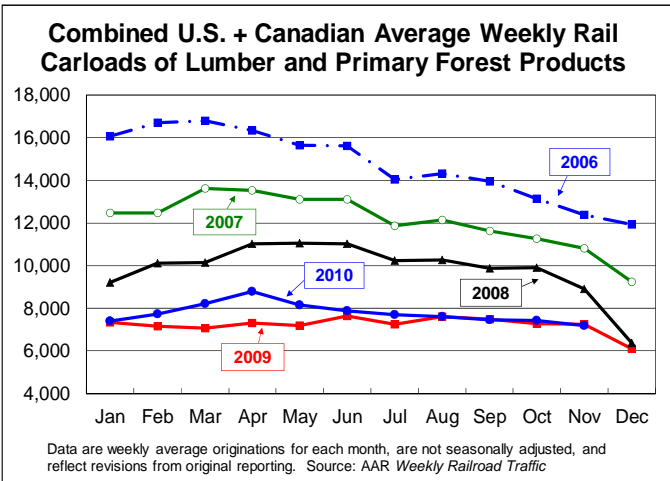
MOTOR VEHICLES AND PARTS



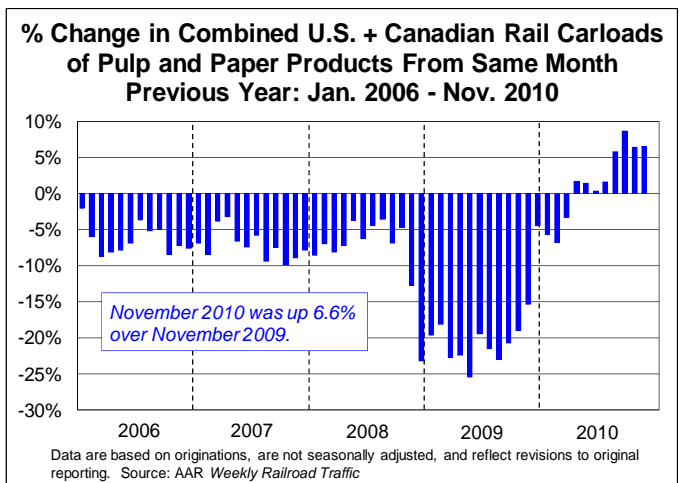
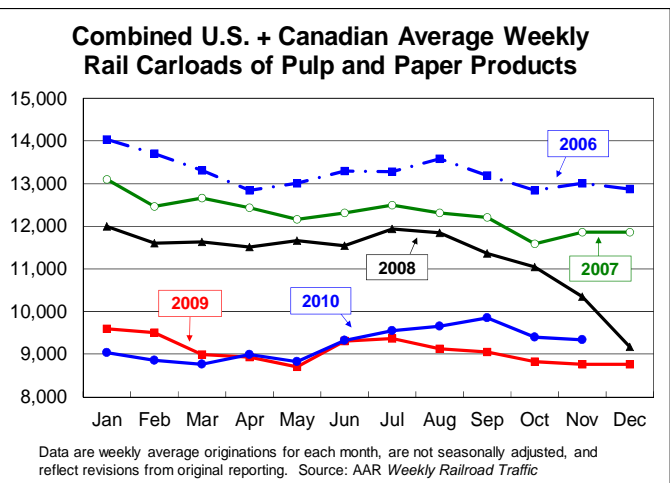
METALLIC ORES (OVERWHELMINGLY IRON ORE)



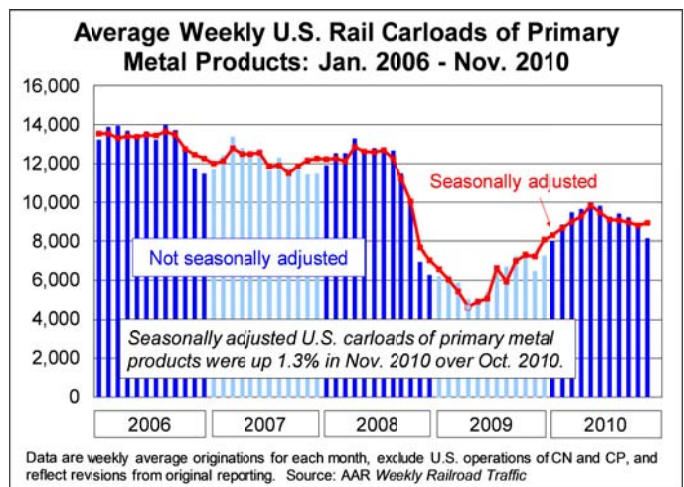
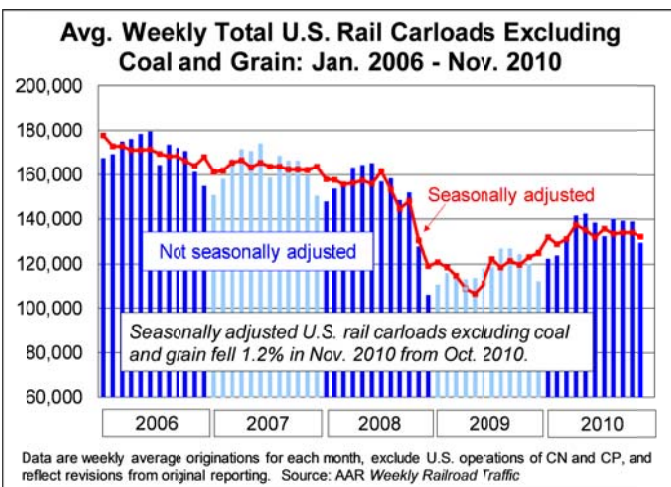
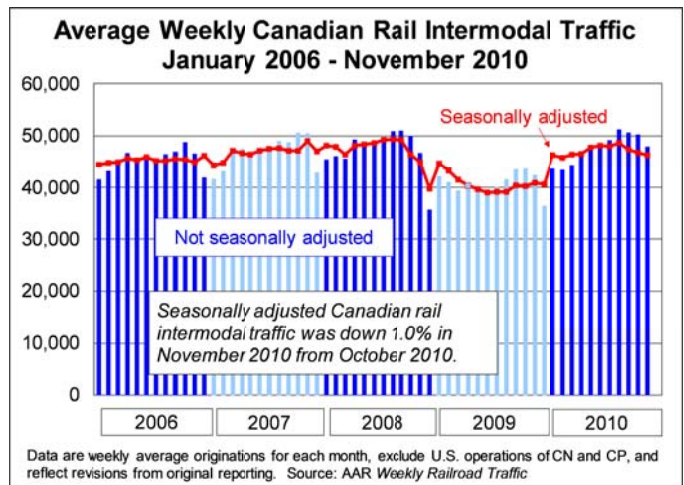
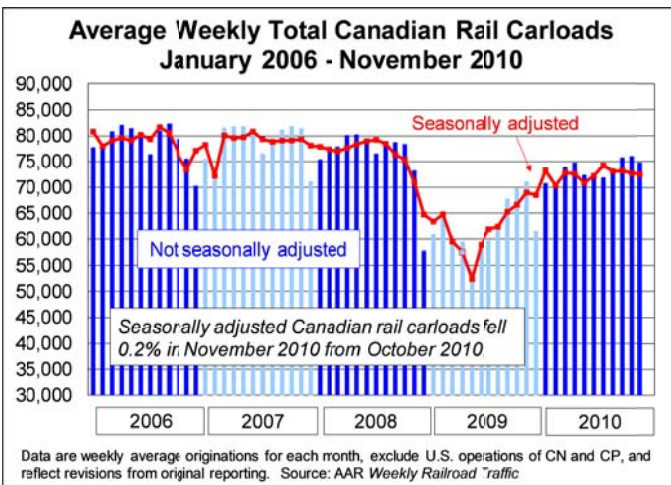
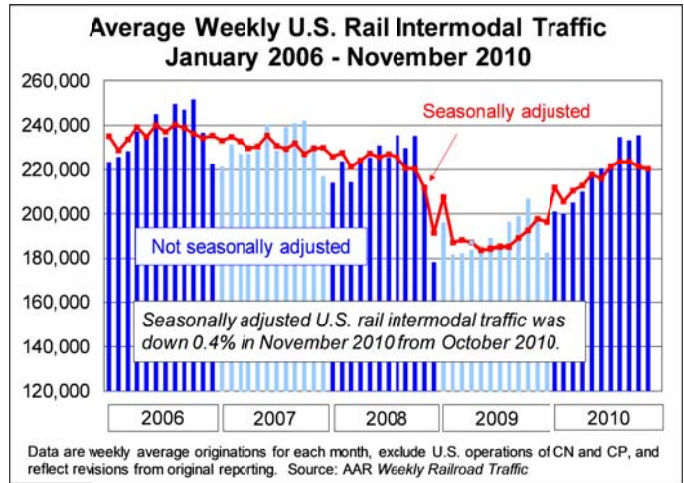
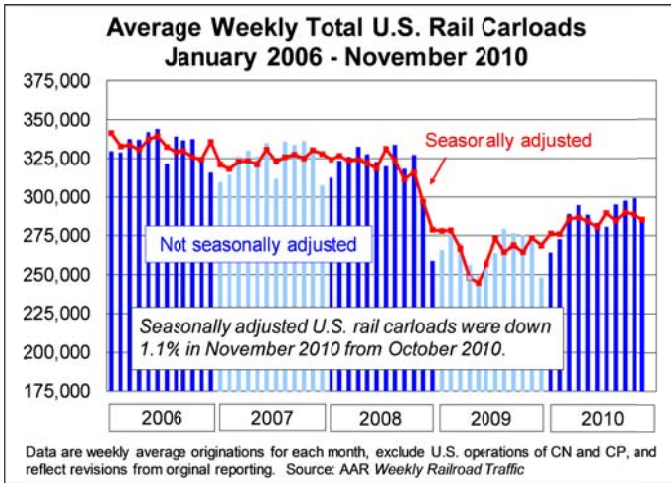
LUMBER AND WOOD PRODUCTS + PRIMARY FOREST PRODUCTS



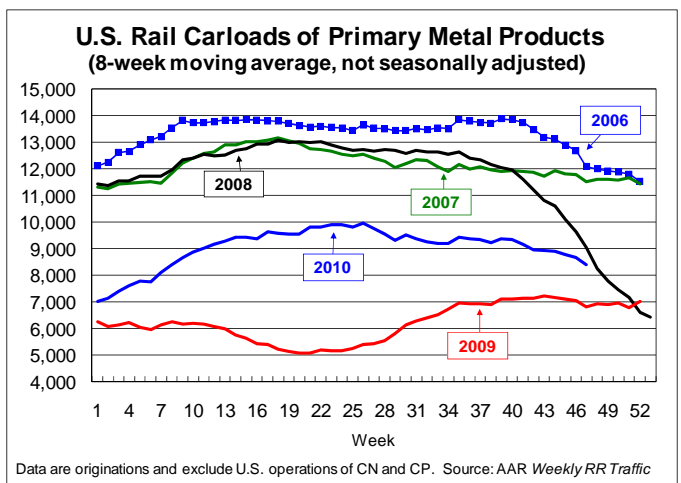
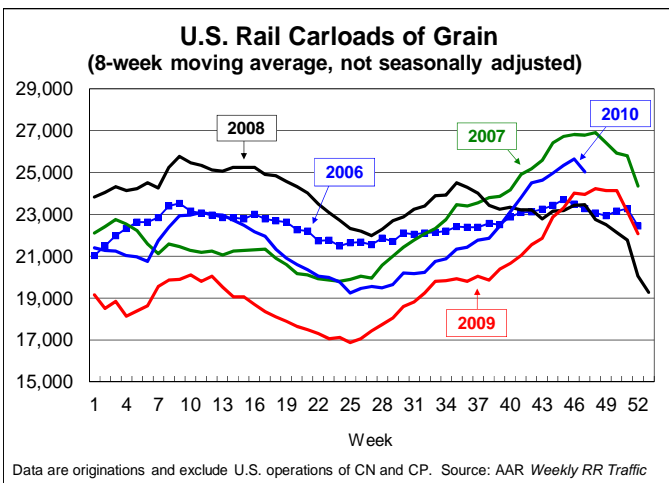
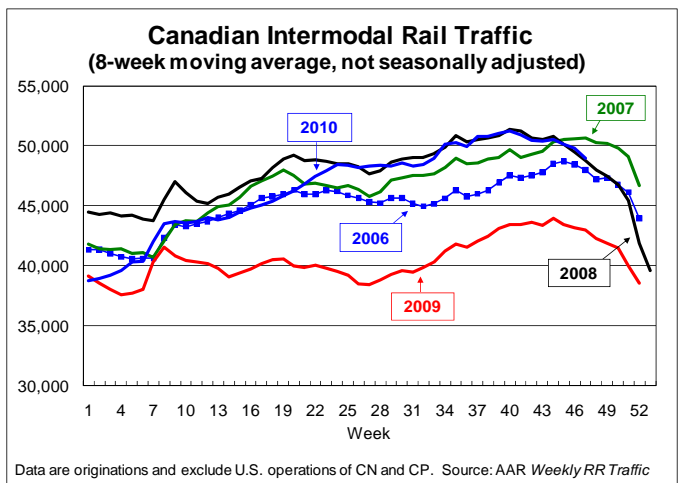
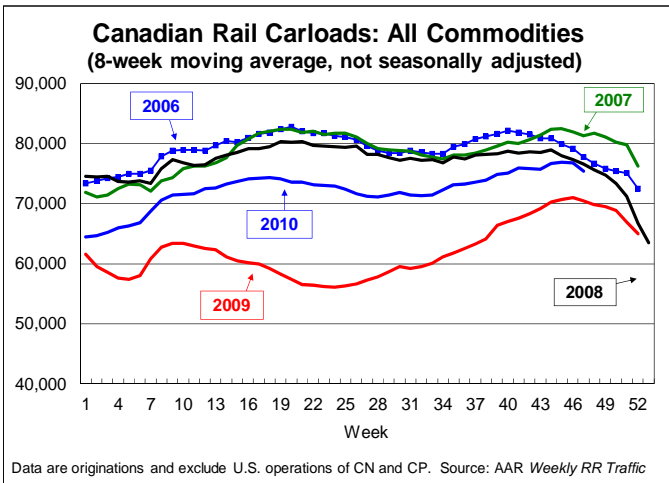
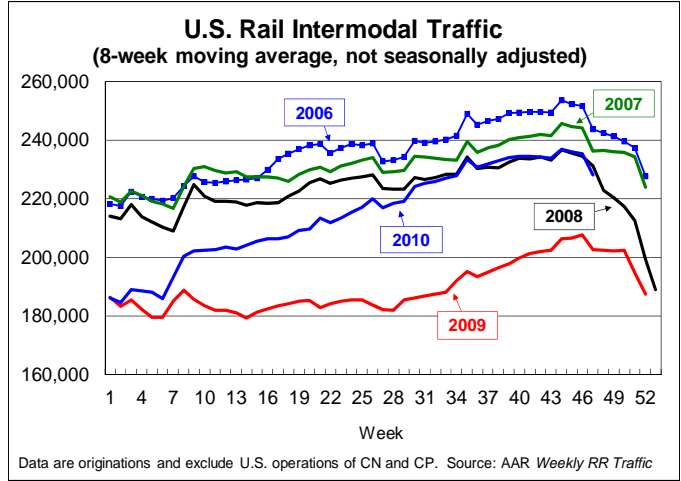
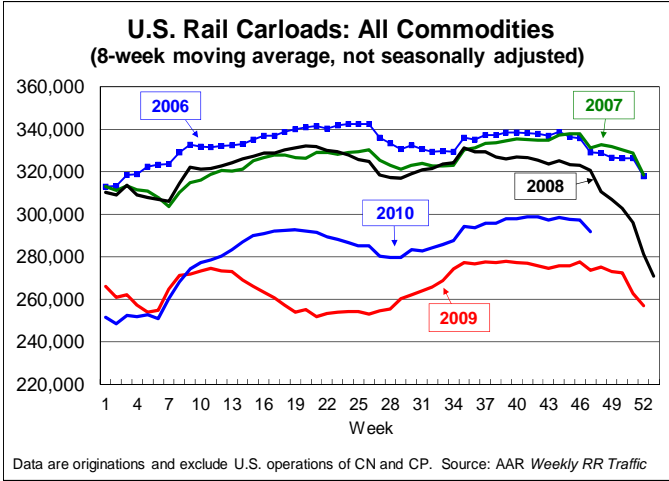
PULP AND PAPER PRODUCTS



SEASONALLY ADJUSTED RAIL TRAFFIC



8-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?

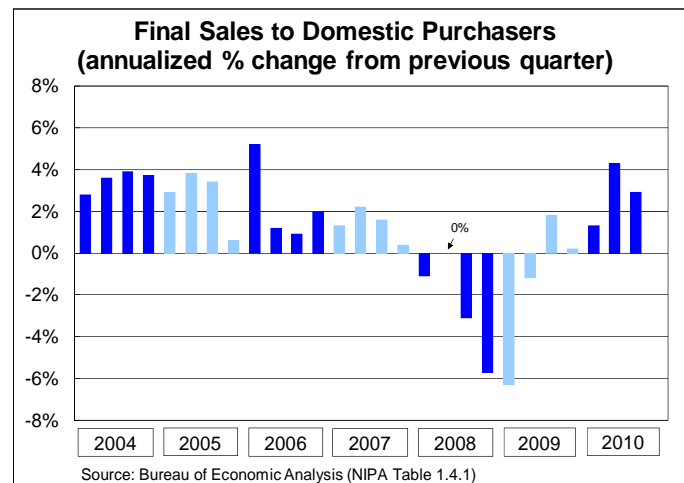
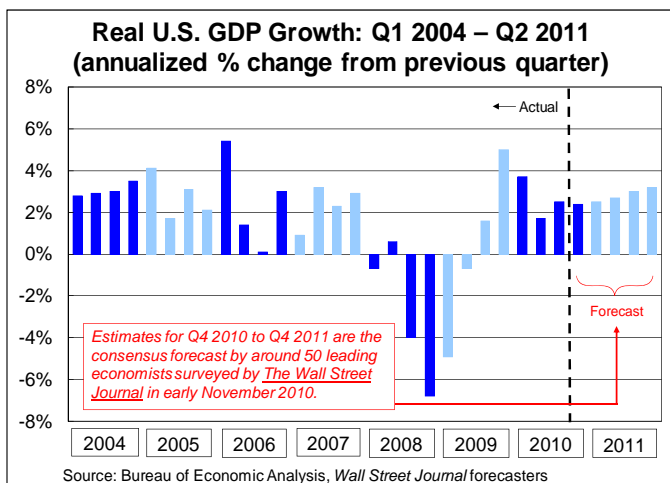
- U.S. Bureau of Economic Analysis (BEA), measured quarterly and revised several times as better data become available.

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.

What are the latest numbers?

- **U.S. GDP grew at an annualized rate of 2.5% in Q3 2010**, according to the BEA's revised preliminary estimate released November 23. The initial estimate was 2.0%. GDP grew 1.7% in Q2 2010.
- The chart below right, a version of which was last shown in our July report, shows "final sales to domestic purchasers," which is a subset of GDP that excludes inventory and trade. Some economists think it's a better gauge of U.S. economic activity than overall GDP because it measures how much U.S. residents spend. It rose 2.9% in Q3 2010, down from 4.3% in Q2 2010 but still higher than any other quarter since Q1 2006.



- Last month's *Rail Time Indicators* discussed the Federal Reserve's recently announced "quantitative easing" program, under which the Fed hopes to spur the economy by purchasing hundreds of billions of dollars in government bonds. Based on a *Wall Street Journal* survey of around 50 leading economists taken soon after it was announced, the Fed's program will have only a very modest effect on the economy. The economists' consensus was that the Fed's program will cause GDP to grow by 0.2 percentage points in 2011, the unemployment rate to fall by less than 0.1 percentage point by December 2011, and the consumer price index to rise by 0.3 percentage points by December 2011.
- The consensus in the November *WSJ* survey of economists was that GDP would grow 2.4% in Q4 2010, 2.6% in the first half of 2011, and about 3% in the second half of 2011. The economists

think the unemployment rate will be 8.9% in December 2011 (it was 9.8% in November 2010), and they estimate the odds of a double-dip recession in the next 12 months at just 16%.

- The Federal Reserve's Federal Open Market Committee (FOMC) is a key player in the development of U.S. monetary policy.³ The FOMC holds eight regularly scheduled meetings each year, most recently on November 2 and 3, 2010. The minutes from FOMC meetings are usually released three weeks after the meeting was held. On November 23, the minutes from FOMC's early November meeting were released and included the following observations:
 - ✓ "Participants variously noted a number of factors that were restraining growth, including low levels of household and business confidence, concerns about the durability of the economic recovery, continuing uncertainty about the future tax and regulatory environment, still-weak financial conditions of some households and small businesses, the depressed housing market, and waning fiscal stimulus."
 - ✓ "Although participants considered it quite unlikely that the economy would slide back into recession, some noted that continued slow growth and high levels of resource slack could leave the economic expansion vulnerable to negative shocks."
 - ✓ "In the absence of such shocks, and assuming appropriate monetary policy, participants' economic projections generally showed growth picking up to a moderate pace and the unemployment rate declining somewhat next year. Participants generally expected growth to strengthen further and unemployment to decline somewhat more rapidly in 2012 and 2013."

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 third estimate of Q3 2010 GDP on December 22. Click [here](#) for more on the most recent *WSJ* survey of economists.

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.

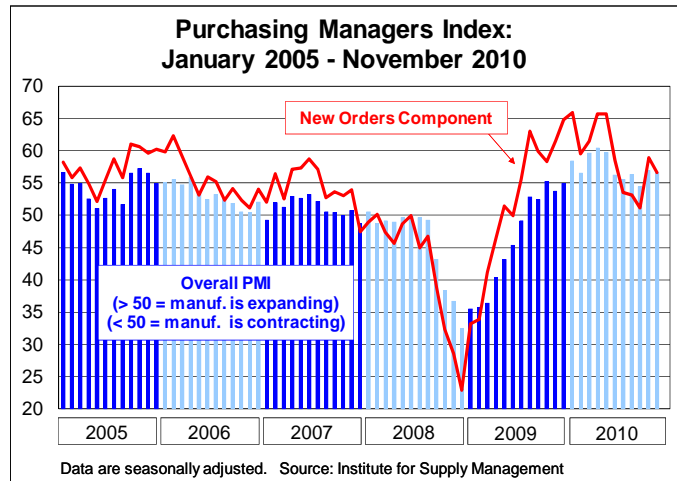
What is it and why is it important?

- 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**.

³ The term "monetary policy" refers to the actions undertaken by a central bank, such as the Federal Reserve, to influence the availability and cost of money and credit. See [here](#) for answers from the Federal Reserve to a number of frequently asked questions regarding monetary policy.

What are the latest numbers?

- **PMI fell slightly to 56.6 in November 2010 from 56.9 in October 2010**, marking the 16th month in a row that PMI has exceeded 50 — and thus the **16th month in a row in which manufacturing is thought to have been expanding**.
- The **new orders** component of PMI **fell more sharply to 56.6 in November 2010 from 58.9 in October 2010**, but it too is still well into the “manufacturing is expanding” range.
- What the ISM said about the November PMI: “The manufacturing sector grew during November, with both new orders and production continuing to expand. With the PMI at 56.6 percent, November’s rate of growth is the second fastest in the last six months. Exports and imports continue to support expansion in the sector. ...Manufacturing continues to benefit from the recovery in autos, but those industries reliant upon housing continue to struggle.”



Where to go for more information:

- More details on the November PMI are [here](#). The December PMI will be released on January 3, 2011.

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 December has data covering October.)

What is it and why is it important?

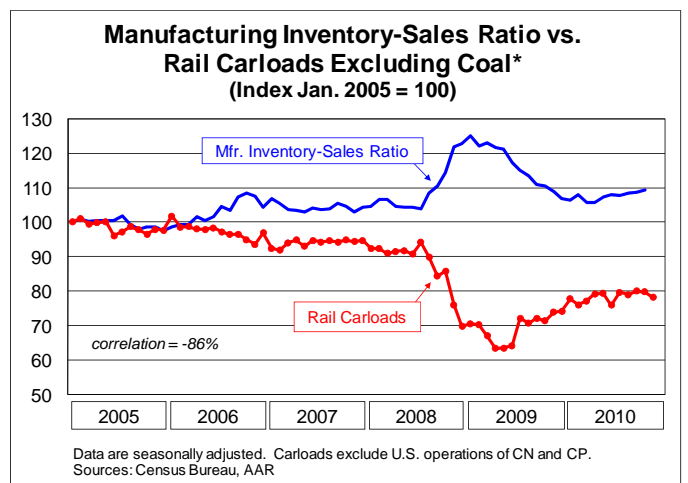
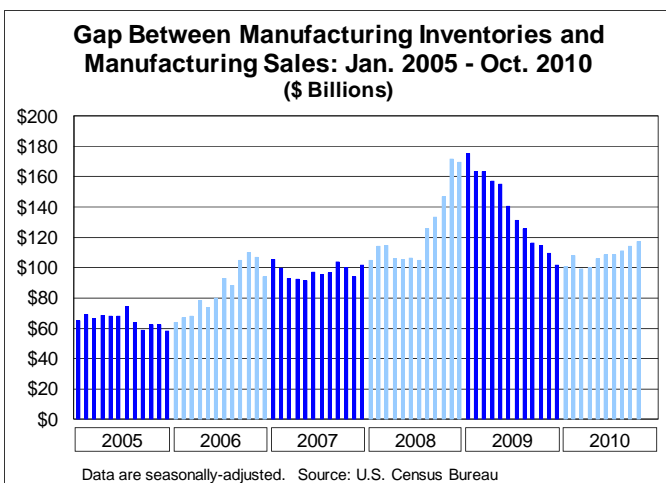
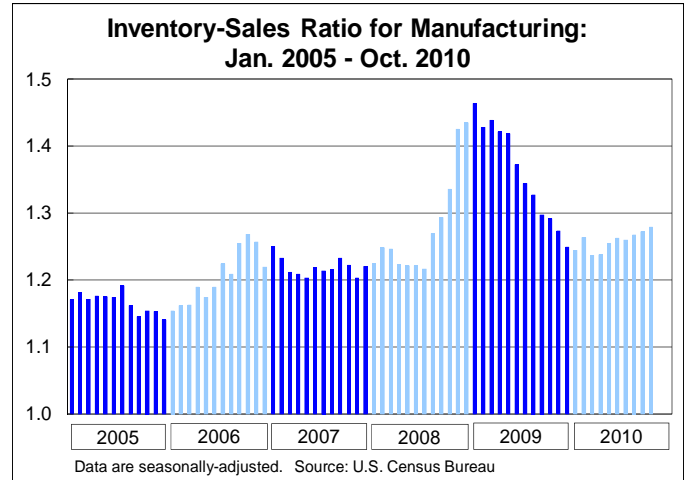
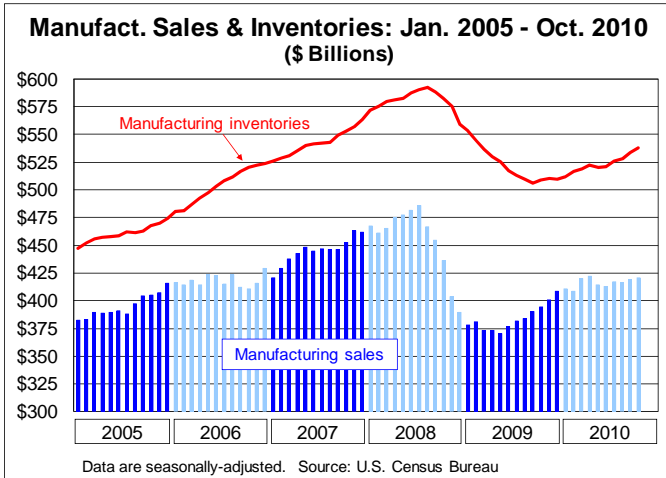
- The report is based on data reported from manufacturing establishments with \$500 million or more in annual shipments covering 89 industry categories. Figures are seasonally adjusted.
- Manufacturers **don't want to hold too much inventory** because it costs money to store it and it can become obsolete 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 become 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?

- In October 2010, **manufacturing sales edged up 0.3% (\$1.5 billion) over September 2010**, more or less maintaining the plateau of the past seven or eight months. Meanwhile, **manufacturing inventories rose a much higher 0.9% (\$4.7 billion)** (see chart top left on the next page). The resulting inventory-sales ratio for October **rose 0.5%** to 1.28. The gap between

manufacturing inventories and manufacturing sales rose for the third straight month and sixth month of the past seven, as inventories have been growing more quickly than sales.

- The correlation between the inventory-sales ratio and rail carloads remains strong (see chart bottom right below).



Where to go for more information:

- The Census Bureau's full report on manufacturing sales and inventories in October is [here](#). Figures for November 2010 will be released on January 4, 2011.

INDUSTRIAL PRODUCTION

Who releases it and when?

- The Federal Reserve, around the middle of each month. Data from the previous few months are subject to revision.

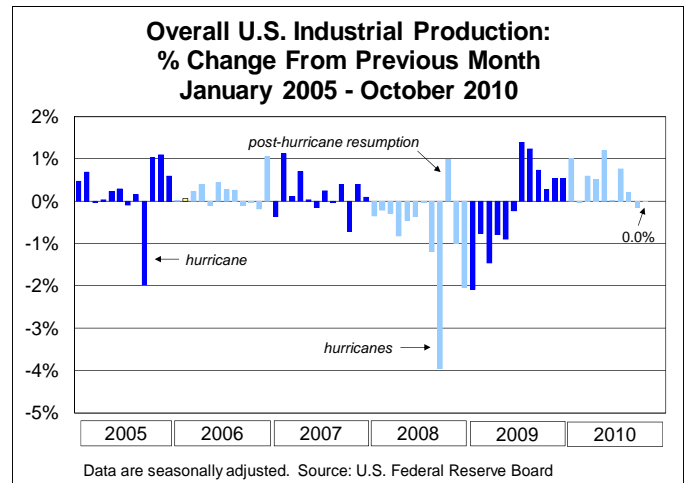
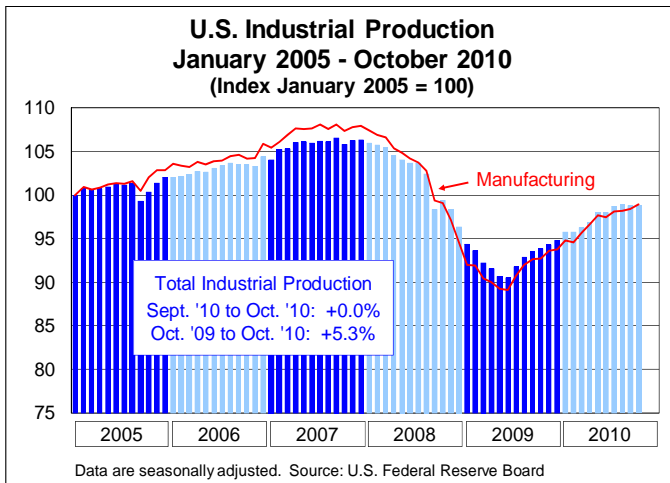
What is it and why is it important?

- 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 was flat in October 2010 compared with September 2010**. It was 5.3% higher in October 2010 than in October 2009.
- **Manufacturing** is by far the biggest component of industrial production. It **rose 0.6% in October 2010 from September 2010**, its fourth straight increase. (Preliminary data had shown a decline from August 2010 to September 2010, but revised data showed a small increase instead.)
- Gas and electric utilities comprise the difference between total industrial production and the manufacturing component. Due to unseasonably warm weather in October 2010, utility output was down 3.4% for the month.



- In the first 10 months of 2010, total industrial production was up 4.2%; the manufacturing component was up 5.5%. In its most recent quarterly economic forecast, released on November 18, the Manufacturers Alliance / MAPI projected growth in manufacturing production of 5.8% in 2010, 4.0% in 2011, and 4.9% in 2012.⁴

Where to go for more information:

- The Federal Reserve release on industrial production in October is [here](#). November 2010 data will be released on December 15, 2010.

CAPACITY UTILIZATION

Who releases it and when?

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

What is it and why is it important?

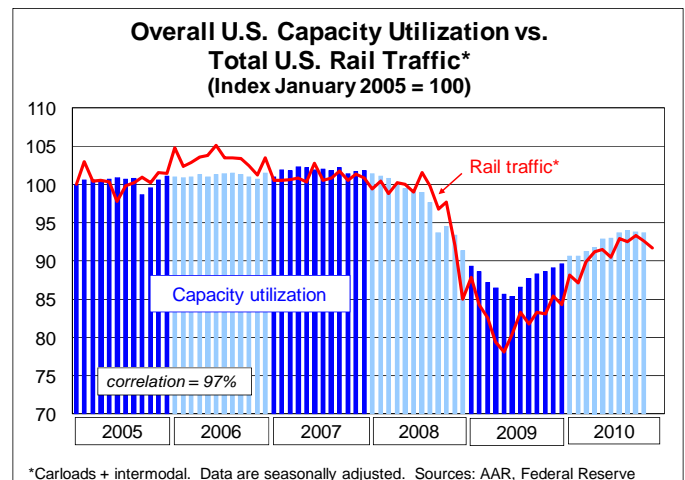
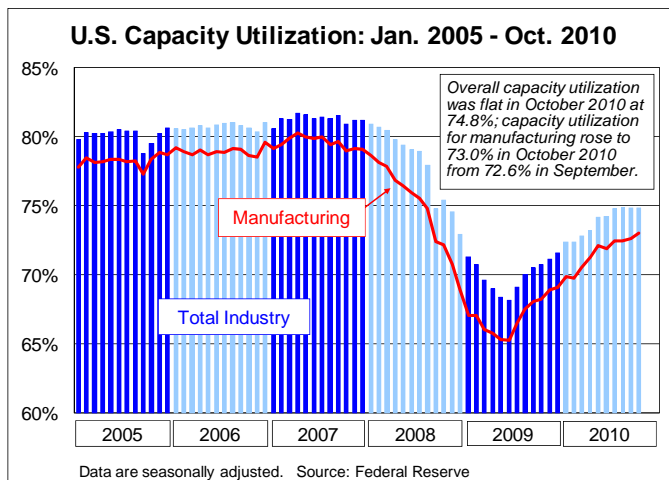
- Capacity utilization attempts to capture the concept of sustainable maximum output — *i.e.*, the highest output a plant can maintain assuming a realistic work schedule, normal downtime, and sufficient availability of inputs to operate the capital in place. The Fed’s data cover manufacturing, mining, and electric and gas utilities. Industry breakouts are also available.

⁴ The Manufacturers Alliance / MAPI is a membership organization that offers benchmarking, networking, and research services. For more on its most recent quarterly forecast, click [here](#).

- 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 utilities) **was steady in October 2010 at 74.8%**, the fourth straight month it's been at that level or extremely close to it. Total capacity utilization was held back by a sharp decline in capacity utilization at electric and gas utilities (from 79.4% in September 2010 to 76.6% in October 2010) due to unseasonably warm weather in many areas that reduced demand for heating.
- **Capacity utilization for manufacturing** (that is, overall capacity utilization less utilities) **rose to 73.0% in October 2010** from 72.6% in September 2010.



Where to go for more information:

- The Federal Reserve release on capacity utilization in October 2010 is [here](#). November 2010 data will be released on December 15, 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?

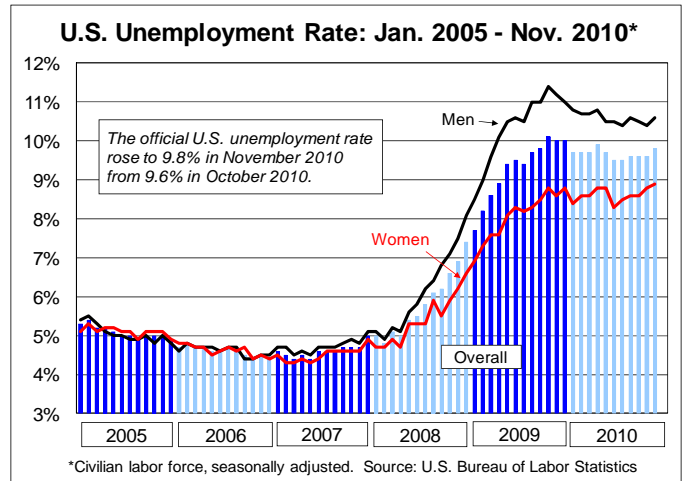
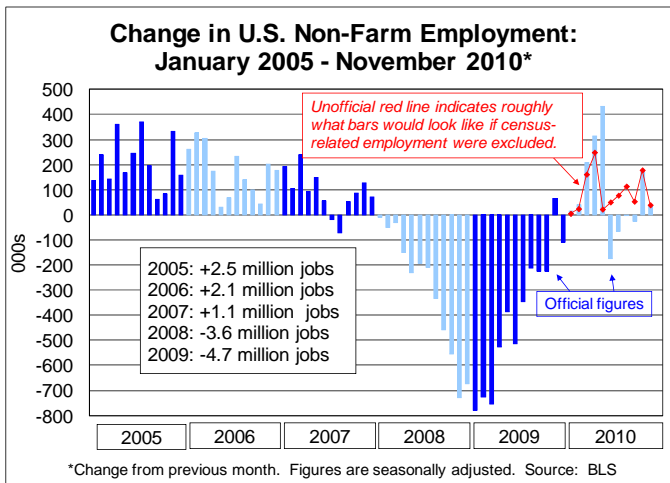
- The figures provide a snapshot of the strength of the U.S. labor market. They are based on two separate surveys: 1) an "establishment survey" of more than 400,000 businesses, and 2) a "household survey" of 60,000 households.
- In the United States, **a gain of 150,000 or more jobs** from one month 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.

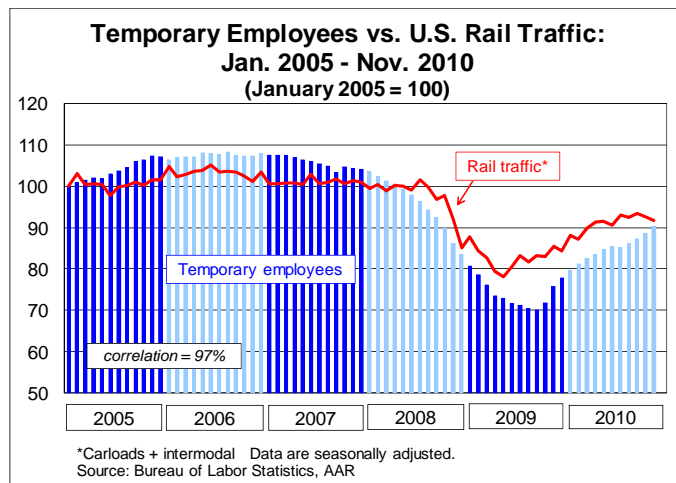
- Employment is often considered a lagging indicator because employers often decide to wait until they're sure an economic recovery is here to stay before making new permanent hires. In the meantime, they might rely on more hours for existing workers or on temporary workers. Weak job numbers cause even 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?

- There isn't much good to say about November's employment figures. **The official unemployment rate rose to 9.8%, up from 9.6% in October** (see chart below right). It has been 9.5% or higher for 16 straight months, the first time that's happened since recordkeeping began in 1948.



- Total **non-farm employment rose by just 39,000 in November 2010**, far short of the 140,000 or so many analysts expected.
- **The private sector gained 50,000 jobs, the least in any month since January 2010 and down from an average of 133,000 in the previous four months.** Total government jobs fell by 11,000 in November, including a loss of 14,000 local government jobs.
- In the first 11 months of 2010, **employment in the private sector has risen by nearly 1.2 million.** 26% of these jobs have been "temporary service" jobs. While certainly better than nothing, these jobs by definition lack the level of permanence that jobs in other categories have (not that many jobs are truly permanent these days). 80% of the 50,000 new private sector jobs in November were temps.
- The chart at right shows that, since 2005, there has been a **very strong positive correlation between rail traffic and the number of temporary workers.**



- Manufacturing, construction, retail sales, local government, and financial services, among others, lost jobs in November. Health care, the federal government, leisure and hospitality, and transportation and warehousing, among others, gained jobs in November.
- We said last month that in October 2010, a record 84.6 million people in the United States age 16 and over were not considered part of the labor force, including 1.2 million who had given up looking for a job because they believed no jobs were available for them. In November, those figures were 84.7 million and 1.3 million, respectively — new records both.
- The total number of employed fell from 139.1 million in October 2010 to 138.9 million in November. That's down 7.6 million from the peak in November 2007.

Where to go for more information:

- The BLS press release on the employment situation in November 2010 is [here](#). Data for December 2010 will be released on January 7, 2011.

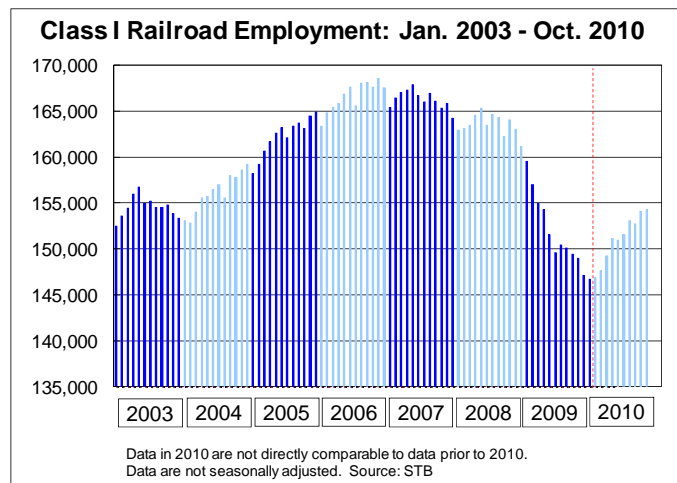
CLASS I FREIGHT RAILROAD EMPLOYMENT

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 **inched up by 191 employees in October 2010 from September 2010** to 154,285. The increase was spread across employee types.

Where to go for more information:

- The STB web site for railroad employment data is [here](#).

CONSUMER CONFIDENCE

Who releases it and when?

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

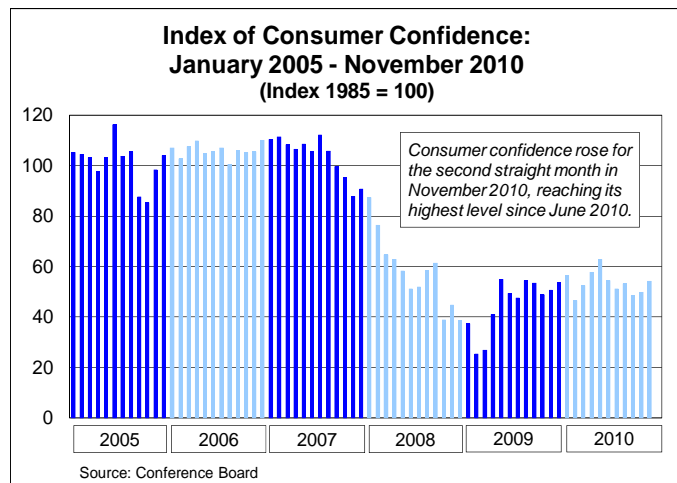
What is it and why is it important?

- 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 54.1 in November 2010** from 49.9 in October 2010. That's the highest it's been since June 2010.

- Still, as the chart at right shows, **consumer confidence has generally been fluctuating within a fairly narrow band for a year and a half** at a level nowhere close to where it was in 2006 and 2007 (though much higher than it was in early 2009). The area around the current level thus appears to be a “new normal” that seems likely to last until consumers are presented with a compelling reason to change their viewpoint. Since most economists think that a double-dip recession and rapid economic growth are both unlikely for the foreseeable future (see GDP discussion on page 16), it's reasonable to believe this “new normal” level of consumer confidence will be here for a while.



- What the Conference Board said about the November index: “Consumers’ assessment of the current state of the economy and job market, while only slightly better than last month, suggests the economy is still expanding, albeit slowly. Expectations, the main driver of this month’s increase in confidence, are now at the highest level since May.”
- Other points from the November 2010 survey of consumer confidence:
 - ✓ Those anticipating that business conditions **will get worse** over the next six months **fell to 12.1%, down from 14.4%** in October and the lowest such figure since May 2010. Those who think business conditions **will improve** in the short term **rose to 16.7%, up from 15.8%** in October. The **vast majority (71.2% in November) think business conditions will continue to muddle along**, neither improving nor worsening.
 - ✓ **4.0% of respondents** (equivalent to 200 people in a 5,000 person sample) said **jobs are “plentiful”** — a result that seems a bit out of line with most of reality. It was 3.5% in the October survey.

Where to go for more information:

- The Conference Board’s press release on November’s consumer confidence index is [here](#). December’s consumer confidence index will be released on December 28, 2010.

RETAIL SALES

Who releases it and when?

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

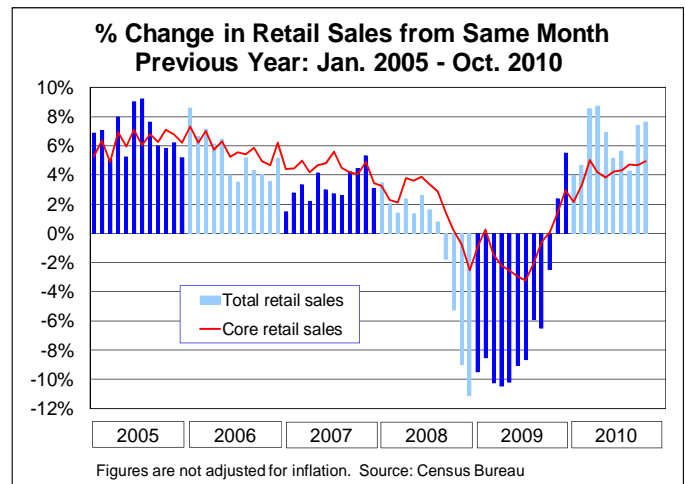
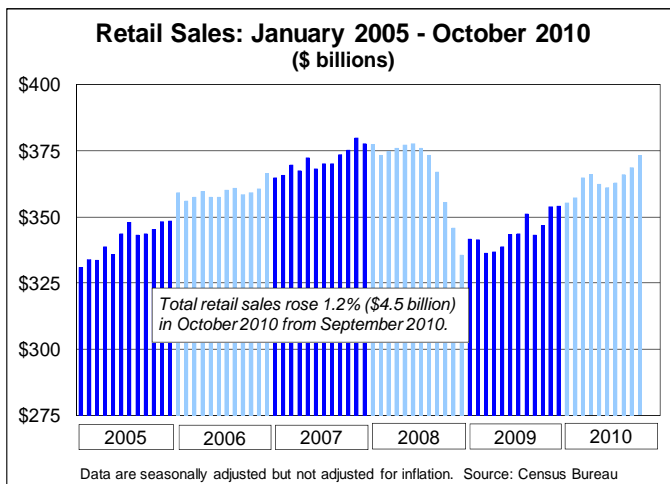
What is it and why is it important?

- 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. Ultimately, of course, the health of the economy determines how much “stuff” people can 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?

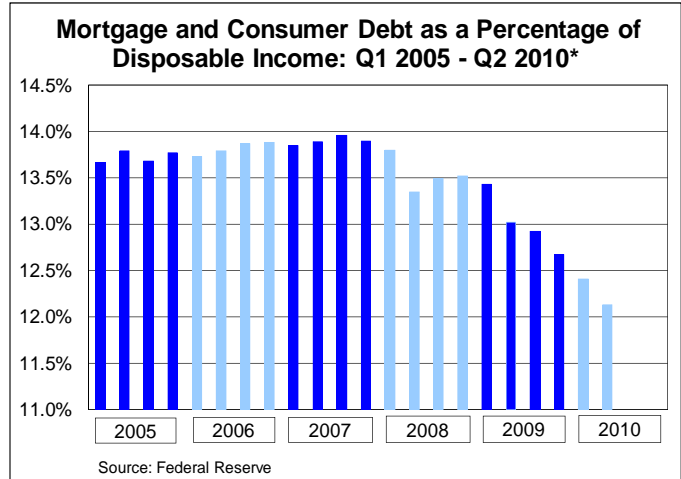
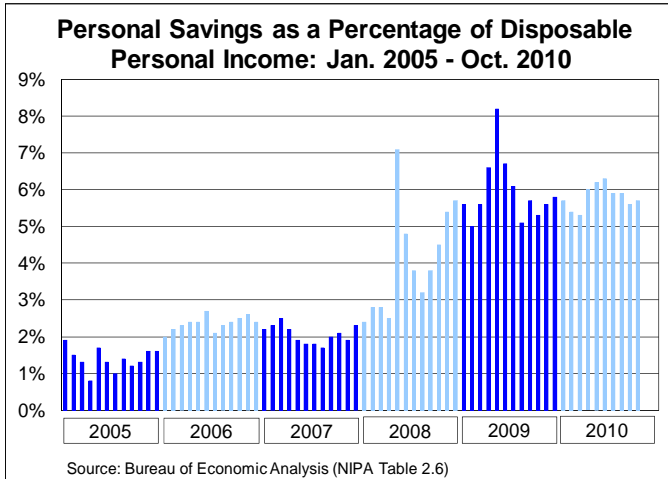
- Total retail sales **rose 1.2% (\$4.5 billion) in October 2010 from September 2010**, the fourth straight monthly gain. October 2010 retail sales were the highest since July 2008 (see chart below left) and were up 7.6% from October 2009 (see chart below right). (Note: retail sales data are not adjusted for inflation. Inflation for the past couple of years hasn’t been very high — see page 28 — but at least some of the increase in retail sales in 2010 is due to inflation.)
- “Core” retail sales — which exclude autos, gasoline, and building materials — were up a much smaller 0.2% (\$586 million) in October 2010 compared with September 2010.



- More than \$3.2 billion of the \$4.5 billion increase in retail sales in October consisted of sales at motor vehicles and parts dealers, which saw sales rise 5.0% for the month (to \$67.0 billion). Most of the remaining increase was due to increased sales of building materials, garden equipment and supplies (up \$455 million from September 2010 to October 2010) and non-store retailers (up \$255 million).
- The chief economist of the Manufacturers Alliance / MAPI recently wrote “Consumers are deleveraging and paying off debt” and “have a pressing need to spend less than their income growth in order to rebuild the wealth needed for retirement.”⁵ The two charts on the next page support this claim.
- The chart on the left, which we trot out periodically (most recently in August), shows **personal savings as a percentage of disposable personal income**. By definition, income that is saved isn’t spent. The relatively higher savings rate in 2009 and 2010, all else equal, means reduced personal consumption.

⁵ See “MAPI Quarterly Economic Forecast: A ‘Rebalancing’ With More Growth From Investment, Exports,” November 18, 2010, available [here](#).

- The chart below right, with data from the Federal Reserve, shows estimated mortgage and consumer debt as a percentage of disposable personal income. By Q2 2010, it was down to 12.1%, its lowest level since early 2000.⁶ Of course, there's no reason to think this percentage will continue to go down forever. At some point, enough consumers could say, "I've held back long enough, I'm going to the mall."



- Some analysts think that's already happening. Statements like "People are back in spirit, shaking off the recession and spending on themselves, as well as gifts," and "The consumer is on a comeback" have appeared recently in the press.⁷ Optimists like the speakers of these quotes point out that the October increase in retail sales was the largest in seven months. They also point to very recent retailers' reports. For example, according to the International Council of Shopping Centers, year-over-year comparable-store U.S. chain store sales grew 5.8% in November 2010, the biggest gain in seven months (see [here](#)).
- Is optimism warranted, or is it just wishful thinking? The most recent consumer confidence figures (see page 23) and employment data (see page 21) — and, for that matter, retail data (see page 3) — suggest some caution may still be in order. We hope we're wrong, though, since if consumer spending does surge, it almost certainly means higher economic growth ahead than most people expect right now.

Where to go for more information:

- The Census Bureau's press release on October 2010 retail sales is [here](#). November retail sales will be released on December 15, 2010.

LIGHT VEHICLE SALES

Who releases it and when?

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

⁶ For this purpose debt includes required payments on outstanding mortgage and consumer debt, such as student loans, credit card debt, and other personal debt.

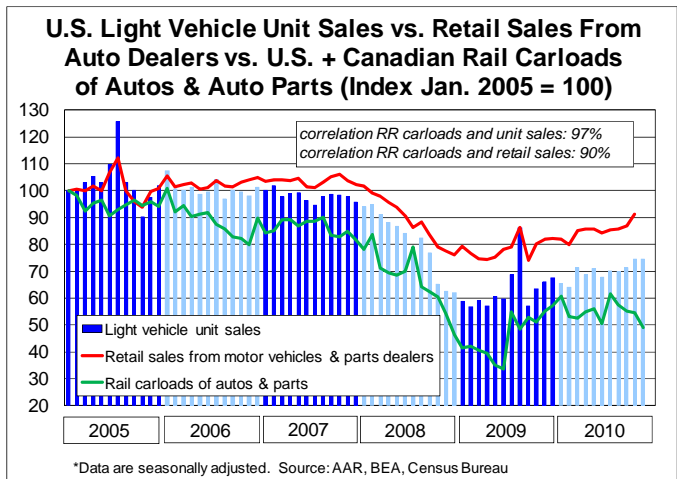
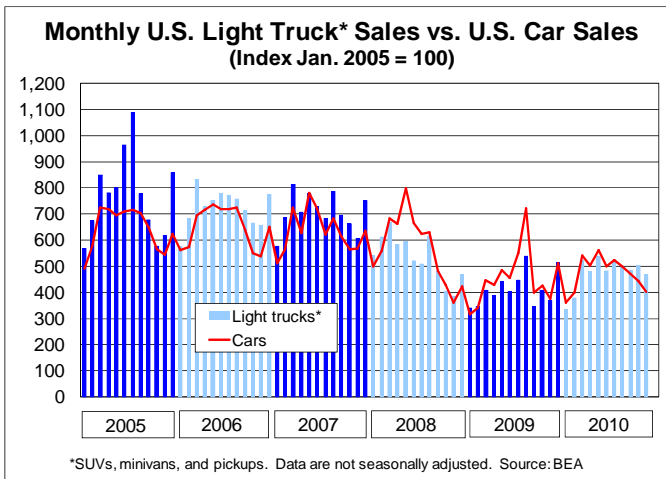
⁷ For an interesting piece from Barron's making the case that consumer spending will surge in coming months, see [here](#).

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 November 2010 were a seasonally-adjusted and annualized **12.2 million**, the **same as in October 2010** but up 13% over November 2009's 10.8 million, according to BEA. Excluding "cash for clunkers" in August 2009, the last time auto sales were as high over two months as they were in October and November 2010 was August and September 2008.
- In November 2010, light trucks — defined as pickups, SUVs, minivans, and "crossovers" — accounted for 54% of light vehicle sales. The last time the light truck percentage was that high was December 2007. Light truck sales exceeded car sales in September 2010 and October 2010 too (see chart below left). Sales of these types of cars may not necessarily be what's best for the environment, but they are better for automakers (the profit per vehicle is higher) and are better for railroads, since each rail car can carry more sedans than pickups or SUVs. In other words, for a given number of motor vehicles, more SUVs and pickups in the mix mean more rail carloads.



- As you'd expect, there is a very close correlation between retail sales from motor vehicle and parts dealers (see page 25) and motor vehicle unit sales. Rail carloads of motor vehicles and parts are closely correlated to both as well (see chart above right).

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.

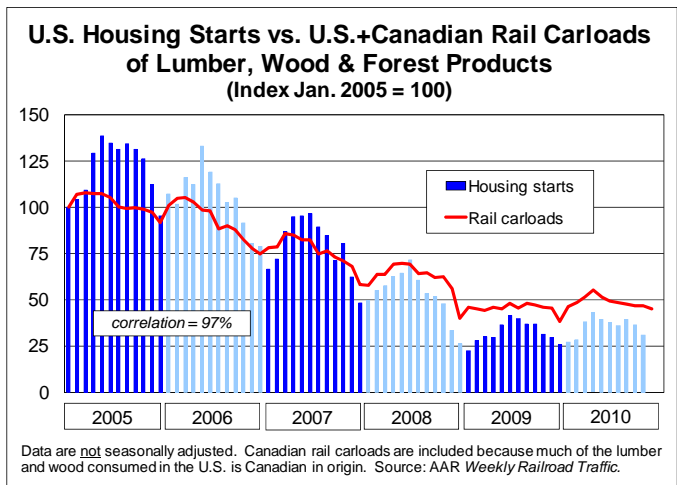
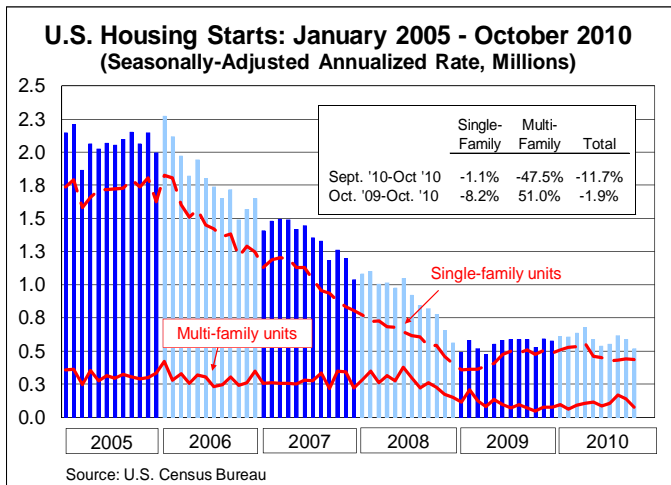
What is it and why is it important?

- 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?

- Just when you thought housing numbers couldn’t get any worse, they did. Seasonally adjusted **housing starts in October 2010 fell to 519,000**, down 11.7% from a revised 588,000 in September 2010 and down 1.9% from October 2009. October 2010’s housing starts were the **lowest since April 2009**.
- Housing starts for multi-family units are typically much more volatile than housing starts for single-family homes, and nearly all of October’s decline was in multi-family units. Single-family homes typically account for about 80% of total housing starts. They fell just 1.1% in October 2010.
- Why are housing starts so lousy? Here are three major reasons: high unemployment and weak consumer confidence are scaring off buyers; there’s a huge inventory of already-built (and usually cheaper) homes on the market; and builders are having trouble getting financing for new projects.
- We usually have a chart here showing seasonally-adjusted U.S. and Canadian carloads of lumber, wood, and primary forest products and seasonally adjusted U.S. housing starts. Since 2005, the correlation between them has been 99%, which is nearly perfect. This month we’re including a chart (see below right) showing the correlation between non-seasonally adjusted rail carloads and non-seasonally adjusted housing starts. Since 2005, their correlation has been 97%, which is also exceedingly high.



Where to go for more information:

- The Census Bureau’s press release on housing starts in October 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.

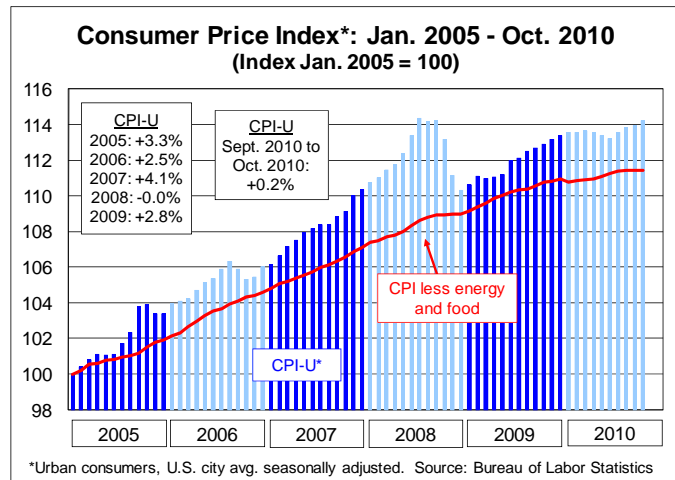
- The “CPI for All Urban Consumers” (CPI-U) is the inflation index most often reported by the media, although BLS publishes hundreds of CPI indexes each month. The “core” CPI — defined as CPI less food and energy — is also commonly used. Food and energy prices are typically more volatile than other prices 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. It is believed that the Federal Reserve regards inflation of about 2% to be about right for the U.S. economy.
- 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 October 2010, the **consumer price index** for all urban consumers (CPI-U) **rose** a seasonally adjusted **0.2%**. As of October, it was up **1.2%** on a **year-over-year basis**.
- “**Core**” inflation — CPI less food and energy — was essentially **flat in October 2010** for the third straight month. It was up just 0.6% year-over-year.

Where to go for more information:

- The BLS press release on the November 2010 CPI is [here](#). October’s CPI will be released on December 15.



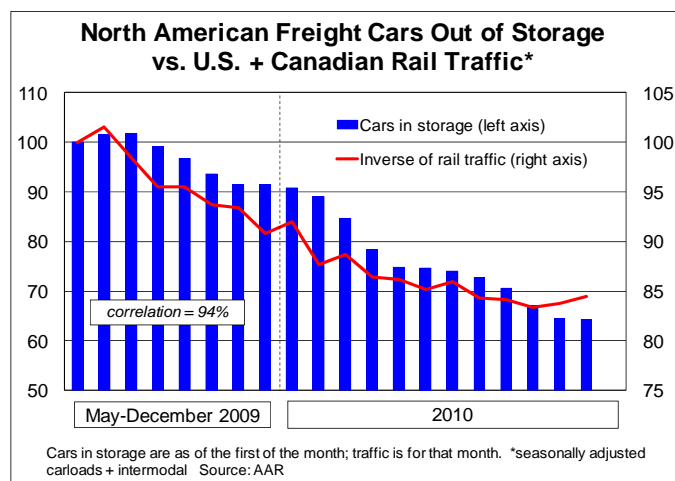
RAIL FREIGHT CARS IN STORAGE

Who releases it and when?

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

What is it and why is it important?

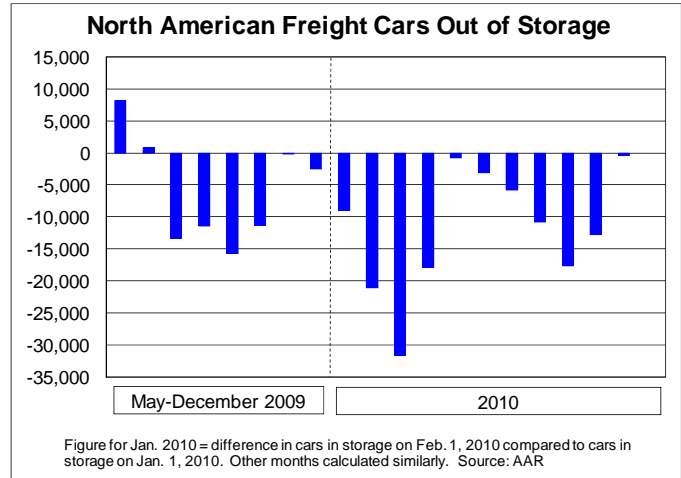
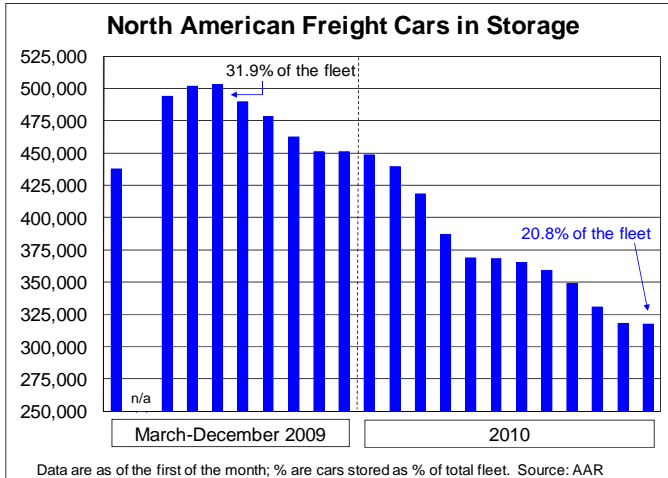
- A freight car is “in storage” if it has had a loaded revenue move since 2005, but not in the past 60 days. Rail cars are stored when they are not needed due to lack of demand; they come out of storage when demand improves. Figures are for the entire North American rail freight car fleet and include 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.



- To the extent that railroads are able to improve the utilization of their freight cars by using them more efficiently, they will need fewer of them than they used to for the same level of traffic.

What are the latest numbers?

- As of December 1, 2010, **317,810 freight cars — 20.8% of the total fleet — were in storage**, a decline of 465 cars from November 1, 2010 (see chart below right). Since peaking in June 2009, about 185,000 freight cars have come out of storage.



- The chart on the bottom of the previous page shows the correlation between North American rail cars in storage and U.S. and Canadian rail traffic (defined here as carloads plus intermodal trailers and containers.) The correlation is strong and negative, as one would expect: the more rail traffic, the fewer cars in 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.

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.