Tie Producers Ready For Growth

By Fred Norrell

With product dynamics all over the board, there is no lack of cross currents in the tie market environment. Some commodities are suffering declines, while others are heating up. This phenomenon is causing the tie market to ready for growth.

Take coal, for example. U.S. coal shipments by rail peaked in 2008, were bruised by the recession and policy, and are not enjoying a comeback. This recent state of affairs is apparently the result of electric utilities switching to low-cost natural gas, a move reinforced by looming regulatory restrictions.

Further, global slow-down is reducing demand for metallurgical coal. According to the American Association of Railroads (AAR), North American coal shipments were down almost 10 percent in 2012. When this happens, crosstie wear and tear is diminished, and replacement demand will be impacted.

There are offsets, however. Oil and gas exploration has boosted shipments of sand, chemicals and pipe. AAR reports shipments of crushed stone, sand and gravel were up by about 7 percent in 2012. New track buildouts are popping up in a large number of sites. Additionally, increased oil production has resulted in a large increase in rolling pipelines. AAR reports shipments of petroleum products increased by 37.8 percent in 2012.

Other offsets include auto shipments (up about 14 percent) and lumber for housing (up more than 10 percent), both

Yearly Forecast Summary
New Wood Crossties (in thousands)

Year approx.	Real GDP	Class 1 Purchases	Small Market Purchases	Total Purchases	Percent Change
2008	-0.3%	16,761	3,907	20,668	0.2%
2009	-3.1%	16,216	3,432	19,648	-4.9%
2010	2.4%	16,379	3,200	19,579	-0.4%
2011	1.8%	16,525	5,363	21,888	11.8%
2012	2.3%	17,908	4,984	22,892	4.6%
2013	3.0%	17,897	5,608	23,505	2.7%
2014	3.0%	18,168	5,251	23,420	-0.4%
2015	2.5%	18,594	5,045	23,639	0.9%

products that suffered during recession, but are now satisfying deferred demand.

Intermodal units continued their climb, increasing by 4.2 percent.

Recently examined data show exports are supplementing demand in the tie market. RTA has been working with the Department of Commerce in an effort to identify data reporting issues but to little avail. New data requests from members are pending. If results to the inquiries produce meaningful data, then adding the information to future forecasts will improve understanding of this reportedly growing market segment.

All totaled, North American commodity carloads were down 2 percent last year, but new construction was apparently a stronger force. Drilling infrastructure, new and renovated terminals and yards, and new and upgraded corridors, tunnels and bridges created a huge demand for crossties. Tie purchases in 2012 were almost 17 percent higher than in 2010. Unfortunately, the data on new construction is not as easy to gather and compile in real time. Thus, RTA forecasters rely on anecdotal information to help guide the forecast results. After the fact, reports from AAR summarize the impact of new construction on the tie market; this data not only document what has happened, but also help in the interpretation of future anecdotal information.

RTA's forecast model is driven by variables that describe and quantify the U.S. economy. In RTA's previous forecast (in the September/October 2012 issue of *Crossties*), the focus was a weakened economy, and Standard & Poors' latest economic forecast reveals little change. However, one significant change has occurred since then: the passage of the shortline tax credit for 2012 and 2013.

The impact on last year's tie purchases was somewhat diluted, but as the table on page 8 indicates, this year should see a marked improvement.

Although it is assumed the tax credits survive throughout the forecast period—in 2014 and after—small market purchases are reduced somewhat due to shrinking coal shipments. The forecast model demonstrates an immediate impact of coal on Class 1 freight volumes, but small market dynamics are different: a reduction in coal shipments is spread out over a two-year period.

Coal is an important commodity, and plays an explicit role in RTA's forecast model. Yet, the product dynamics of recent years suggest the need for explicit roles for other product lines as well. RTA forecasters will be researching this issue, incorporating findings into the planning process, and reporting on progress.

In a recent presentation to members of the National Railroad Construction and Maintenance Association, transportation analyst Tony Hatch identified product lines expected to grow faster than GDP: intermodal, shale, oil, agriculture, export coal, and chemicals. His slow-growth list includes auto parts and domestic coal. New construction is ubiquitous. The bottom line is a picture of a tie market that is adapting to these changes, and preparing for further growth. ■

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