Recovery & Beyond

By Fred Norrell

RTA's forecasts for the past year or more have focused on the recession and when recovery might begin. The beginning of recovery may be at hand, so this article outlining the prognosis for 2010 also looks out a few years beyond. The vista points to a strong tie market emerging, but not for a few years.

By some measures the U.S. economy looks to have begun recovery; production (Real GDP) increased by 5.7 percent in the fourth quarter. Following the usual historical pattern, employment is lagging, and this may build momentum for the creation of a second stimulus package.

Keynesian economic theory holds that a boost in government spending will give birth to new jobs and increase household incomes, resulting in a series of new waves of consumer spending; recovery is thus accomplished.

Austrian economic thought, on the other hand, suggests that government spending will likely be directed at projects that would ill serve the needs of the private sector (households and business).

Accordingly, resources are not put to their most valuable use, but are taken from activities that would better contribute to recovery and subsequent growth along a stable path. Thus, even if government stimulus helps to bring about recovery, the question is how balanced will the economy be? This is an important question because economic imbalance will retard future growth.

The current U.S. economic policy raises questions from another angle. Easy money appears to be feeding speculative bubbles again; consider prices of oil, gold, and in some parts of the world, real estate. Yet, if a boost in government spending is to avoid driving up interest rates and crowding out investment, monetary policy must expand to accommodate. Washington policymakers appear to be undaunted by the limits to aggressive expansionary policy, yet this initiative is taking place in a newly evolved world financial community…an expanded club that can punish even the largest currency. All this is to suggest that "recovery" is not the only desirable objective. The subsequent growth path is of significant concern, even if it is not a current political priority.

As can be seen in the "Real GDP" graph, recovery is forecast by S&P to appear in 2010 with a sub-par growth rate of 2.4 percent. Economic performance is expected to be on the slow side until 2011; part of the reason is the continuing limits to consumer spending until household debt is reduced to more manageable levels.

Real GDP is the chief variable that drives RTA's forecasting model, and the S&P forecast serves as the guide for future years. As the graph below reveals, the 2009 dip in GDP brings about reductions of crosstie purchases in 2009 and 2010. According to the mathematical structure of RTA's model, GDP and freight rise and fall in tandem. However, a reduction in year one freight has the effect of reducing crosstie purchases in years one and two; this pattern is based on historical data.

Recent crosstie purchases peaked in the period 2006 to 2008. As the graph at left and table above reveal, purchases are predicted to decline in 2009 and 2010, increasing thereafter. By 2012, purchases are projected to exceed records of the recent past.

This article focuses on the growth path beyond recovery, and RTA's econometric forecast model predicts a strong market emerging by 2012. This may be somewhat surprising, and it must be admitted that timing is far from certain. However, it is also the conclusion reached in the "Freight-Rail Bottom Line Report" from the American Association of State Highway and Transportation Officials (AASHTO). Recent investments in railroads by the likes of Warren Buffet would also argue that rail freight growth will emerge with vigor in the future. AASHTO's and Buffet's theme is that rail transport is well positioned to serve a growing economy and thus prosper. Are the railroads ready? By the continued investment of the Class 1s to the tune of billions of dollars each and every year, railroads seem to be saying, "Bring it on." §

Forecast Table
New Wood Crossties (in thousands)

Year approx.	Real GDP	Class 1 Purchases	Small Market Purchases	Total Purchases	PCT
2006	2.7%	15,937	4,848	20,785	11.1%
2007	2.1%	15,285	5,396	20,681	-0.5%
2008	0.4%	16,761	4,003	20,763	0.4%
2009	-2.5%	15,853	3,751	19,604	-5.6%
2010	2.4%	15,341	4,032	19,373	-1.2%
2011	3.0%	16,108	3,976	20,084	3.7%
2012	4.0%	17,305	3,977	21,282	6.0%
2013	3.0%	18,357	4,138	22,495	5.7%