

Tax Reform & A New Year Opportunities With A Shake & A Stir

By RTA's Economic Team

In 2017, the U.S. economy improved along with the global economy. The administration approved an end-of-the-year present to corporations and individuals with a major tax reform package, and the outlook for U.S. and global economic growth brightened further.

In the latest earnings calls, the majority of railroads noted improvement in 2017 and expressed optimism for further, yet moderate, improvement in 2018.

At the same time, the Federal Reserve Bank raised interest rates three times, with continued interest rate normalization expected this year.

Tax cuts caused upward revisions for U.S. GDP growth by 0.3 percent this year as well as 0.3 percent for next year to 2.8 percent and 2.2 percent, respectively (S&P January 2018 forecast). It also prompted IMF revisions for global economic growth of 0.2 percent for each of the next two years to 3.9 percent and 3.8 percent, respectively. Revised U.S. GDP growth is expected due to higher business investments and by consumer spending spurred by corporate and individual tax cuts.

Job creation is accelerating, with concurrent pressures on wages a likely result.

The improving global economy and the weaker dollar have played a substantial role in the increase of U.S. manufacturing (Figure 1). In addition, higher commodity prices, namely oil, contributed to growth.

This can be seen in the Dallas FED's manufacturing outlook index, which is rising (Figure 2). At current prices, and forecasting production of over 10 million barrels per day in 2018, and almost 11 million B/day in 2019, the United States is poised to become the largest crude oil producer in the world.

An improving economy, higher manufacturing activity and more oil production was reflected in higher volume transported by rails. Consequently, Class 1 railroads posted good financial results as noted on quarterly earning calls. The main drivers for the high-

er traffic volume for Class 1 were crushed stone, sand and gravel, which rebounded by 13.6 percent, and metallic ores and metals that rose by 7.1 percent.

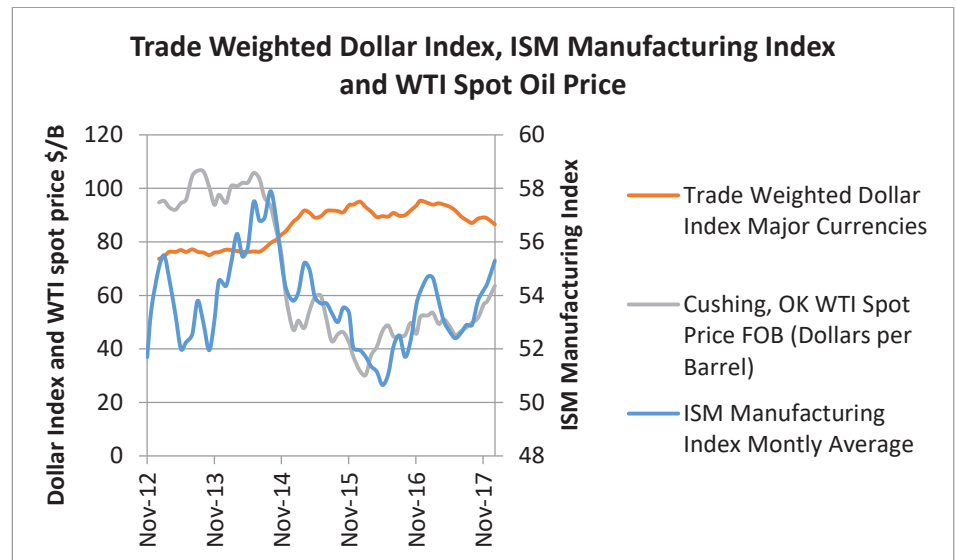
Similarly, for short lines, growth was 22 percent and 4 percent in comparable categories.

Transport of coal increased, mainly due to exports, outweighing the decline in

domestic energy coal consumption. Class 1s' coal shipments increased 8 percent, and shipments reported by short line railroads by 4 percent.

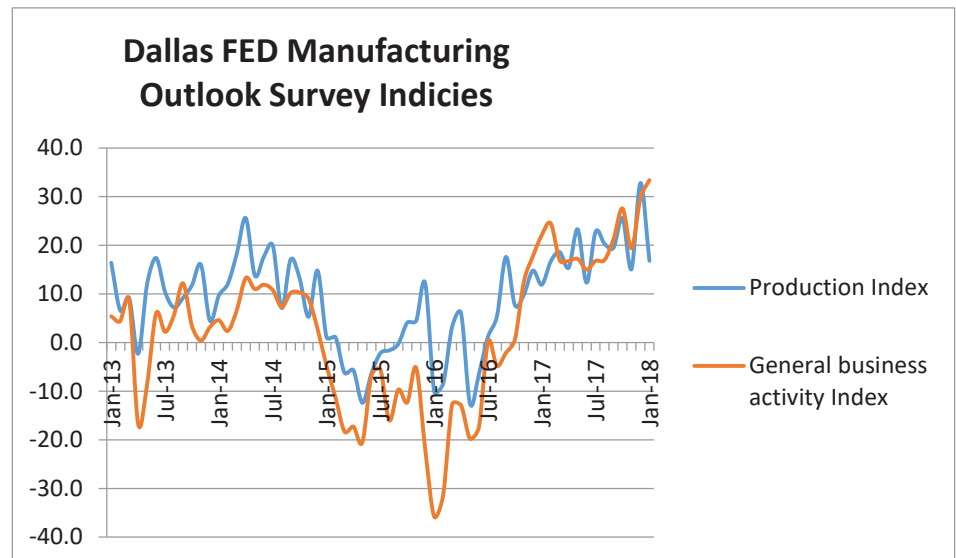
The final takeaway from quarterly calls was that 2018 CapEx will improve marginally over last year; freight volume should increase modestly; increasing oil production brings the demand for fracking

FIGURE 1



Source: EIA, Saint Louis FED, FXStreet

FIGURE 2



Source: Dallas FED



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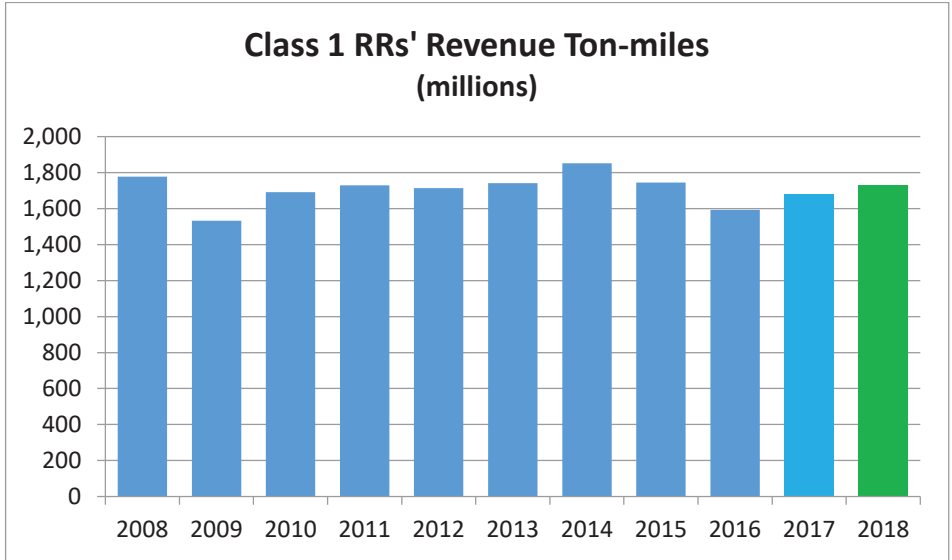
sand, while the rest of the economy will increase demand for transportation of other materials and products.

RTA’s model predicts the same with revenue ton-miles rising approximately 3.5 percent compared to 2017 (Figure 3), with a positive outlook for tie demand down the road.

The RTA team incorporated all the recent impactful numbers into the econometric model and produced the following outlook for tie demand (Table 1). S&P has not updated its upside and downside scenarios, but tests by the RTA economic team of a few tenths of growth, up or down, do not alter the forecast measurably. The March 2018 S&P forecast and a few additional months of data should provide more insight.

It should be noted that there are potential drags on the U.S. economy that could weigh in and alter 2018 U.S. and global GDP growth prospects. Analysts and the Association of American Railroads have noted NAFTA negotiations breakdown, or an exit by the United States, would be a major concern for rail interests. The FED’s pace in raising interest rates is also something to watch. The 10-year Treasury bond at nearly 3 percent yield, rising labor costs, and increased volatility in the global equities markets bear watching, as should tensions with Asian trading partners and concerns for global conflict. Any of these factors could drag economic growth downward and affect tie demand negatively from the forecast model results presented below. ■

FIGURE 3



Source: Surface Transportation Board and RTA forecast. 2017 number is estimated based on three quarters.

TABLE 1

New Wood Crossties (in thousands)					
Year	Real GDP	Class 1 Purchases	Small Market Purchases	Total Purchases	Pct
2014	2.4%	15,931	7,083	23,014	-5.9%
2015	2.6%	16,566	7,417	23,983	4.2%
2016	1.6%	16,531	8,080	24,611	2.6%
2017	2.3%	15,874	6,634	22,508	-8.5%
2018	2.8%	16,249	6,927	23,176	3.0%

SAVE THE DATE: RTA Summer Field Trip To Be In Colorado Springs



Save the date for RTA’s annual summer field trip. In June, attendees will travel to the Colorado Springs and Denver area for tours of manufacturing operations throughout the area.

Along the way, attendees will also enjoy some fun activities, including a trip up to the summit of Pikes Peak, near Colorado Springs.

“This event is always an enlightening and fun experience for our attendees. We are excited about the operations we will visit, as we always take away new ideas. Plans for this annual trip are being finalized now, and we look forward to sharing more details in the next issue of Crosssties,” said RTA Executive Director Jim Gauntt.

- June 4 Arrive Colorado Springs, Colo., for two-night stay
- June 5 Lewis Nut and Bolt, La Junta, Colo.
Evraz Steel Mill (Rail Rolling Mill) Pueblo, Colo.
Holland Weld Plant or Nortrak Pueblo, Colo.
- June 6 LB Foster IJ Weld Plant Pueblo, Colo.
Transportation Technology Center, Pueblo Colo.
(Track Walk and Facilities Tour) Pikes Peak Cog Railway, Manitou Springs, Colo. Travel to and stay Denver, Colo.
- June 7 Koppers Inc., Treating Plant, Denver, Colo.
OminTRAX Frack Sand Trans-load Center, Loveland, Colo.
BioChar Inc. (Tie/Wood recycling Company), Loveland, Colo. Stay or depart from Denver (possible bus ride back to Colorado Springs).