MID-YEAR MARKET REVIEW

PATIENCE, CAUTION STILL VIRTUES IN THIS ENVIRONMENT

From Staff Reports

The first part of the year has not been robust. Although the U.S. Gross Domestic Product (GDP) has grown about 2 percent, and, compared to the same time period last year, the total volume of railroad freight is up about 1 percent, RTA statistics show that crosstie purchases are down 8 percent, with RTA member production down more than 3 percent.

There are mitigating factors that explain part of this. First, the weather in most tie-producing regions during the winter and early spring was atrocious for logging. Without logs to cut, production suffered. With fewer ties ready to go to track—and tie gangs themselves waylaid for a time by winter weather woes—fewer ties were bought and shipped. And, then, there has been the issue of realigning the industry’s production, as Kerr-McGee’s exit from the tie industry has had both buyers and sellers scrambling to make a transition.

The encouraging news comes when the larger picture is reviewed. On a 12-month moving total basis, crosstie statistics look better. Through May 2003, purchases are down only 4.7 percent, while production is up 8.7 percent from levels a year ago. This, along with the above factors, suggests that the industry is truly poised for a faster pace in the latter half of the year. The fact that inventories have also been building further bolsters the notion that a lot more ties will flow to track in the coming months.

Yet, because GDP growth was reported at only 1.9 percent for the first quarter of the year, and continuing weak employment reports are still being received, the suggestion that growth will not accelerate much isn’t farfetched. A survey of economic forecasters published in The Economist magazine predicts only 2.2 percent total GDP growth for this year.

A more optimistic view from a survey of 35 top economists conducted by the Philadelphia Federal Reserve Bank predicted faster growth in the second half of this year. But this could be wishful thinking. With excess capacity still plaguing the manufacturing and high-tech industries, economic improvement would once again rely on the consumer. And, survey notwithstanding, many feel that the consumer may not have a lot of gas left to fuel a faster economic pace.

Yet, increased growth could occur. With the war in Iraq apparently behind us, confidence in the economy is improving, according to most measures of consumers and business leaders. Plus, rallying stock prices gives the impression that Wall Street is buying the notion that there is light at the end of a shorter tunnel.

Another potential positive is that U.S. exporters, whose products are less expensive for consumers abroad, should benefit from a weaker dollar. But that weaker dollar also makes oil purchases more expensive, which is expected by many economists to act like a tax increase, putting a damper on other consumer purchases. Higher oil prices also places profit pres-
sure on oil-based transportation entities like railroads.

The fact is that the manufacturing sector has not shown any signs of expansion: April production is 0.4 percent below year-ago levels, and job losses continue to be reported. Furthermore, auto sales and production are anticipated by many to further weaken as the year unfolds.

Low interest rates and tax cuts may help pull the economy out of the mud even if the benefits of these stimuli are partially offset by higher oil prices. But, even if significant economic growth is just around the corner, no one seems to be placing any big bets on exactly when it will happen.

Meanwhile on Wall Street, USB Warburg’s analysts have cut their earnings forecasts for large railroads. Although the cuts are only modest readjustments of what is expected to be a good year for railroads, they cite rising fuel costs as well as disappointing cargo volume “trends.” While U.S. statistics show year-to-date May carloadings were 0.4 percent below year-ago levels, and job losses continue to be reported. Furthermore, auto sales and production are anticipated by many to further weaken as the year unfolds.

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![Table 1](image)

**NOTE:** The information in this chart is calculated from reported production and inventory numbers by RTA members. This represents more than 95% of the U.S. and Canadian market for wood crossties. Look for an updated production and inventory report in Tie Trends in the September/October issue, where some of this data will be added to existing information.