

Crossties



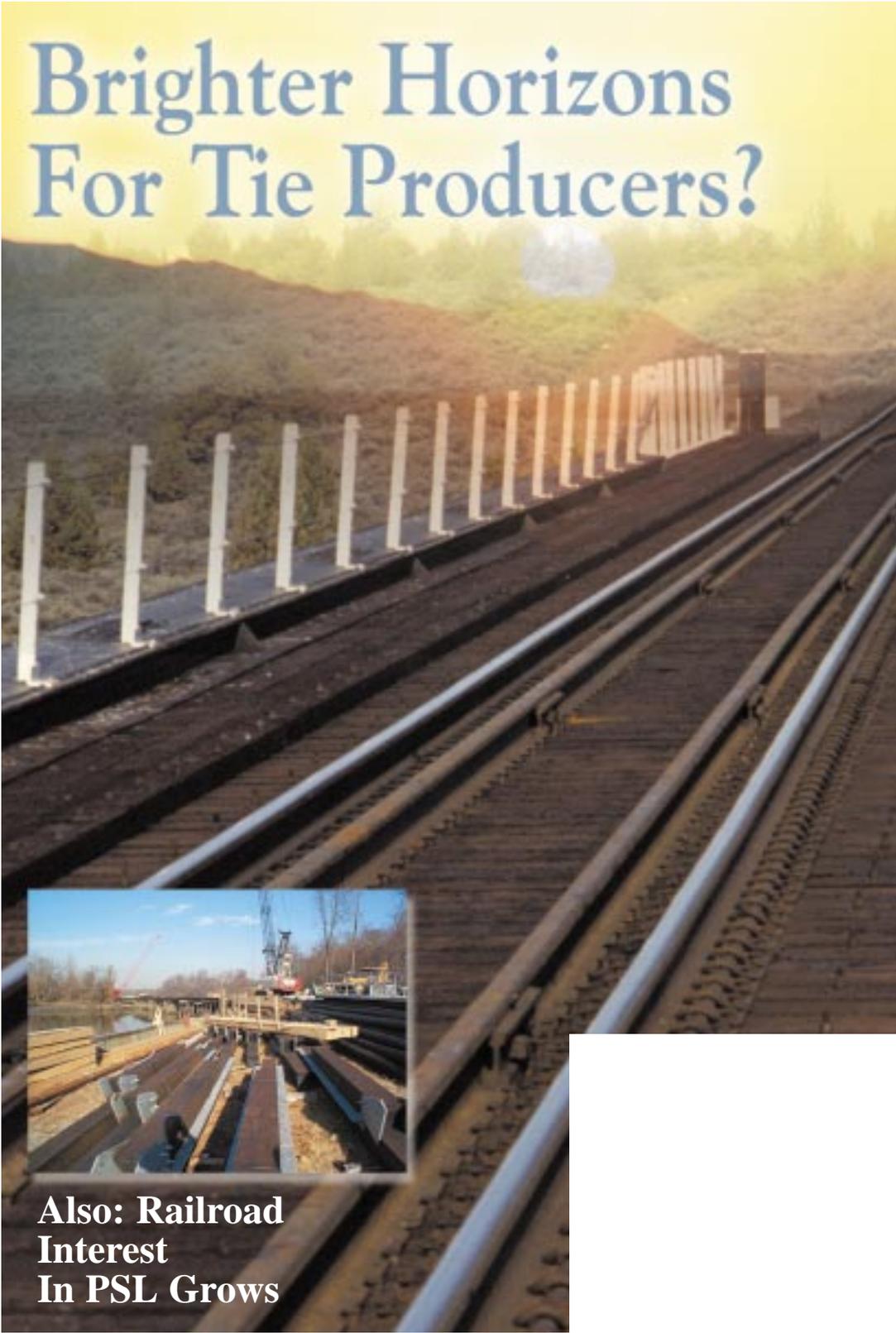
United We Stand

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The Magazine For Producers And Users Of Treated Wood Crossties And Related Products.

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Brighter Horizons Anticipated For Tie Producers

By Jim Gauntt

At the risk of sounding pretentious, RTA forecasters would like to say a few words about 2001 tie demand by the Class 1 railroads...“We told you so.”

In 2001, Class 1 railroads in Canada and the United States, installed almost exactly the same number of ties as in 2000—12,550,527 in 2000 and 12,563,950* in 2001 (see table 1). This had the effect of making the RTA prediction of a steady-state marketplace for 2001 a reality.

But before the banner is held too high, we must admit that our forecast also predicted that production would be flat in 2001. In fact, it would seem that 2001 production outpaced 2000 numbers by just over 600,000* ties. And, tie inventories also slowly decreased throughout the year.

These data would seem to suggest completely different takes on the same market. But, do they? Are producers seeing things that don't have a basis in the realities of the market, or is something else going on?

Much of the problem in understanding that tie production has its roots in the critical component of demand anticipation. In much the same way that Wall Street analysts say that the stock market always predicts the future six months out, tie suppliers have to begin the process of ramping up production well in advance of larger program demand.

Since the vast majority of ties put into track are taken from inventory that is air seasoned for six to nine months, one can begin to see why. If a Class 1 railroad's purchasing department anticipates that engineering maintenance budgets will be increased, they had better be ahead of the curve by as much as four to six months when the ties are needed or they might not be there.

This is partly what has happened in 2001. The other part of the equation in 2001 is the “capturing” of some additional data from RTA producers. Early in 2001, several additional small- and mid-sized reporters were added to the RTA database. A look at production throughout the year shows that 2001 production consistently outpaced 2000. In other words, it didn't

just occur during the latter half of the year, as one would expect if a strong demand year in 2002 were anticipated.

Although this is not quantifiable exactly, due to the confidentiality afforded RTA producer reporters, any reader of the data can see that with tie demand flat, production going up, and inventories going down, something has changed. This capturing of additional reporter data is at the very least part of the reason the numbers look like they are going in both directions at once.

So, maybe RTA forecasters were right about the production really being flat. This is the most likely explanation. This year is going to be a much stronger demand year for ties from the Class 1 railroads.

Recent reports at the RTA Annual Convention, buttressed by a final Class 1 survey in the last few weeks of December, indicate that 2002 tie demand will potentially exceed 2001 demand by more than 1.5 million ties. The 2001 end-of-the-year production figures also reflect this, as additional production is being sought both east and west of the Mississippi River.

Interestingly, though, increased demand can be placed squarely on the shoulders of just two Class 1 roads—Union Pacific (UP) and Norfolk Southern (NS). All the remaining Class 1 roads combined predict no increases for 2002. In fact, if you look at the numbers that are being used by just UP and NS, it could even be suggested that the final 2002 tie production numbers will be higher than that. Together, UP and NS will increase their stated planned programs by a combined 2 million-plus ties.

Steady state this is not. And, producers welcome the change. At an estimated 15.8 million ties in 2002, production will still be shy of the recent record of 20 million ties in 1998, but this 7 percent increase is sorely needed by everyone in the production system. But, wait a minute, if demand could go up by 2 million ties, and production in 2001 was 14.6 million, why aren't the predictions for 2002 production at least 16.6 million ties?

Well, there are still a few unanswered questions, including how the U.S. economy will really react over the next few

months. Will consumers hunker down? Will the recession be protracted? Will the normal market forces that occur in strong demand years affect the final installed tie numbers? Are we in store for yet more impacts from the war on terrorism?

All these questions would seem to place an even bigger question mark over the entire forecast. For this reason, RTA forecasters scaled back the estimates for actual increased demand to only 1.2 million ties overall. Still, this is very significant and greatly needed by both the railroad engineers and maintenance staff, who are responsible for the safe and efficient passage of trains, and the producers who will supply the ties those trains run on.

Other markets, however, do not appear to be bracing for increased spending. In the best estimates of the short line railroad industry and others, and if no infrastructure investment money is forthcoming from Washington, as has been so rightly sought, 2002 markets will do well to see as much activity as in 2001. Surveys and anecdotal evidence would suggest a flat year for short lines, contractors and transits.

This, of course, could all change with the passage of the right economic stimulus package in our nation's capitol. Plus, the Surface Transportation Board has given the final environmental impact go-ahead for the Dakota, Minnesota and Eastern (DM & E) Powder River Basin project. If all legal challenges to this project are settled sooner rather than later, tie producers could be up for an even greater production challenge.

Whether economic stimulus money will reach short line railroads in 2002 early enough to impact tie producers is questionable. Just as questionable, if not more so, is the hope for an easy path to settling all the community challenges to the DM&E expansion. Thus, the marketplace for these entities is estimated to remain near constant when compared to 2001.

With as much fanfare and applause as has been applied to RTA's 2001 forecasts, it is a sure bet that when the 2002 RTA forecast is reviewed in perspective, it will not fare quite as well. That's just the way

things go in the forecasting business. One year, it's right on the money, the next, well, that remains to be seen.

Still, it seems safe to say that some pro-

ducers are indeed fortunate that this year will bring much needed additional demand from some sources. Maybe with some help from Washington, everyone in the rail and

tie industries can look back at 2002 as a great year for investment in railroading. §

**Estimates based on actual numbers through October 2001*

Table 1

	1998	1999	2000	2001 (est.)*	2002 (est.)
CLASS 1 TRACK MILEAGE	171,098	168,979	168,535	168,000	167,500
CLASS 1 RAILROADS					
Total ties installed (U.S.)	12,161,173	12,049,580	11,454,000	11,669,015	12,995,000
Total wood ties installed - new and relay combined (U.S.)	10,725,938	11,062,266	10,802,804	10,502,715	12,102,000
New alternative ties installed	1,435,235	987,314	586,134	759,440	893,000
New wood ties installed (Canada) (1)	1,085,000	1,116,414	1,260,000	1,190,000	1,234,000
Relay ties installed - wood (U.S.)	418,500	296,541	147,574	290,000	275,000
Switch/bridge timber in ECU's (U.S.) (2)	795,014	744,962	570,235	754,375	885,000
Total U.S./Canada installations	14,041,187	13,910,956	13,284,235	13,613,390	15,114,000
Total demand for all new ties U.S./Canada	13,622,687	13,614,415	13,136,661	13,323,390	14,839,000
Total demand for new wood ties U.S./Canada	12,187,452	12,627,101	12,550,527	12,563,950	13,946,000
SHORT LINE TRACK MILEAGE	48,500	49,600	50,000	50,000	50,000
SHORT LINE RAILROADS					
Total ties installed (U.S./Canada) (3)	4,197,759	3,307,229	3,466,062	3,353,827	3,085,973
Grade ties installed (U.S./Canada)	2,486,585	2,061,400	2,693,791	1,810,273	1,719,759
Industrial ties installed (U.S./Canada)	1,412,312	800,066	375,433	1,019,800	968,810
Relay ties installed (U.S./Canada)	298,862	445,763	355,572	418,320	397,404
CONTRACTORS					
All new ties purchased for markets other than above (4)	933,909	894,732	500,000	500,000	500,000
New wood ties purchased for markets other than above	933,909	889,232	495,000	495,000	495,000
New alternative ties purchased for markets other than above		5,500	5,000	5,000	5,000
TRANSITS					
New ties for all transits, including Amtrak	363,500	285,000	215,000	140,000	130,000
New wood ties for all transits, including Amtrak	250,000	70,000	125,000	80,000	90,000
New alternative ties installed, including Amtrak	113,500	215,000	90,000	60,000	40,000
GLOBAL					
Wood ties exported to markets other than above	1,062,500	785,000	445,000	345,000	345,000
Wood ties imported to U.S. from countries other than Canada	37,000	30,000	30,000	40,000	40,000
TOTAL MARKET DEMAND					
Total all ties installed by all markets supplied from U.S./Canada sources (5)	19,664,946	18,288,185	17,410,297	17,452,217	18,674,973
Total all new ties installed by all markets supplied from U.S./Canada sources	18,947,584	17,545,881	16,907,151	16,743,897	18,002,569
Total demand for new wood ties	17,398,849	16,338,067	16,226,017	15,919,457	17,064,569
TOTAL MARKET SUPPLY - WOOD					
Total reported wood tie production	20,099,000	16,256,000	13,983,000	14,635,000	15,735,000
Total production of non-reporting companies (estimate)	1,022,760	886,681	821,347	700,000	750,000
Total supply from all producers of wood ties (U.S./Canada)	21,121,760	17,142,681	14,804,347	15,335,000	16,485,000
Increase or (decrease) in wood tie reported inventory	3,189,000	616,000	(252,000)	(584,457)	(579,569)
Actual inventory reported	13,284,000	13,900,000	13,648,000	13,063,543	12,483,974

(1) Canadian railroads, with their U.S. trackage included, installed over 1.6 million ties in 1998, 1999, 2000 and 2001. The U.S. trackage portion of these installations is combined with U.S. Class 1 railroads in Line 1. The Canadian trackage installations are reported in Line 4.

(2) Switch/bridge timbers are reported as ECU's (Equivalent Crosstie Units). This ECU figure is determined by dividing total reported board footage by 40 BF (average BF per crosstie). Thus in 2000, the approximately 30,000,000 BF of switch and bridge timbers translates into 765,950 ECU's.

(3) Survey data combined with projections for Canadian short lines.

(4) In 2000 (the last year surveyed), contractors reported that only about 21% of their tie purchases went into short line projects and 4% to Class 1 railroads. The remaining 75% went into industrial and other non-Amtrak government projects. Since no formal survey is conducted of contractors the numbers represented are estimates based on general knowledge of the market.

(5) This figure represents total installations in U.S. and Canadian markets, plus the total exported to global markets worldwide.

* 2001 Figures are year-end estimates based on production and inventory figures through October and RTA surveys completed in December.