Crossties Forecast: A Bump In The Road

By Fred Norrell

Forecast Summary **New Wood Crossties (in thousands)**					
Year (approx.)	**Real GDP**	**Class 1 Purchases**	**Small Market Purchases**	**Total Purchases**	**Pct**
2008	0.0%	16,761	3,975	20,736	0.3%
2009	-2.6%	16,216	3,725	19,941	-3.8%
2010	2.9%	16,379	2,878	19,256	-3.4%
2011	2.7%	16,184	4,063	20,247	5.1%
2012	2.8%	16,560	3,550	20,110	-0.7%
2013	2.7%	17,018	3,907	20,924	4.0%
2014	3.4%	17,773	4,004	21,778	4.1%

The U.S. economy was growing at a satisfactory pace at the end of 2010, but early estimates for this year's first quarter are disappointing; from an annual pace of 3.1 percent, Gross Domestic Product (GDP) slowed to a paltry 1.8 percent.

Consumer spending decelerated in part because of harsh winter storms in January. But sagging confidence was an additional problem: depressed housing prices and sales, a weak job market, and soaring gasoline prices all played into this negative mood. If that were not enough, one can consider the effects of Japan's disasters; the violence in Libya, Syria, and elsewhere; and the sovereign debt problems in Europe. There is plenty of gloomy news to go around.

At all levels, government spending declined during the first quarter. Foreign governments took steps to get their budgets under control; their policies slowed growth, and thus also, U.S. exports. There is one bright spot: although U.S. construction spending was down, investment increased due to added equipment and software.

In early April, Standard & Poor's predicted 2011 GDP growth of 2.9 percent; this has been cut to 2.7 percent in May (*see table*).

This rather modest pace is expected to continue for the next three years; by 2014, growth should pick up to 3.4 percent—a rate more in keeping with historical norms.

Freight movement has mostly recovered from the recession's impact. Class 1 ton-miles hit a plateau from 2006 through 2008 and then plunged almost 14 percent in 2009. Last year's preliminary reading shows an increase of more than 10 percent. A projected 6 percent growth in 2011 should put freight back on the plateau. From there, annual increases between 2 and 4 percent are expected. Short line freight took a more severe blow from the recession, dropping almost 3 percent in 2007, 7 percent in 2008, and a further 23 percent in 2009.

A rebound of about 11 percent signaled recovery in 2010.

Improving business volume plus a tax incentive for 2011 drive small market tie requirements from a meager 2.9 million in 2010 back to a level commensurate with the last five years: 4.1 million ties

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purchased. The forecast assumes no future tax incentives; therefore tie purchases drop again in 2012 and 2013.

Class 1 railroads stated their determination to keep their maintenance programs robust during the recession, and during 2010 they purchased about 1.3 million ties more than the forecast model indicated. The model now predicts an increase of about 1.2 million ties in 2011 (above *predicted* 2010 level), but this is not enough to surpass the actual 2010 purchases. Thus, purchases drop a small bit in the 2011 forecast; they pick up and continue to grow thereafter. A continuation of robust maintenance would result in purchases at a higher level than forecast.

Total tie purchases are predicted to grow about 5 percent in 2011 but fall off slightly in 2012 in the absence of a short line tax incentive—a bump in the road. Growth of about 4 percent carries through the next two years (*see table*.)

At this time, the forecast model has no way to represent the effects of positive train control (PTC) investments and their impacts on railroad budgets in future years. Including some provision for PTC would likely reduce the forecast of tie purchases. The forecast also assumes no extra tie purchases associated with high-speed rail; government budget priorities may hurt this initiative. ■