Rail Time Indicators

A Review of Key Economic Trends
Shaping the Demand for Rail Transportation

Policy & Economics Department
Association of American Railroads
Washington, DC

August 20, 2009

<u>Rail Time Indicators</u> is a non-technical summary of many of the key economic indicators potentially of interest to U.S. freight railroads. It is issued near the middle of each month by the Policy & Economics Department of the Association of American Railroads.

To get on the e-mail distribution list for <u>Rail Time Indicators</u>, please contact Dan Keen (dkeen@aar.org, 202-639-2326) or Shannon Stare (sstare@aar.org, 202-639-2322).

SUMMARY FOR JULY 2009

Economic Indicator	**Most Recent Data**
U.S. Freight Rail Traffic (p. 2)	↓ **17.5%** (carloads), ↓ **18.0%** (intermodal) in July 2009 from June 2008.
Canadian Freight Rail Traffic (p. 3)	↓ **22.0%** (carloads), ↓ **19.2%** (intermodal) in July 2009 from June 2008.
Gross Domestic Product (p. 13)	↓ **1.0%** in Q2 2009 (preliminary estimate).
Purchasing Managers Index (p. 14)	↑ **to 48.9** in July from 44.8 in June.
Manufacturing Inventories and Sales (p. 15)	From May to June, manufacturing sales ↑ **1.4%,** inventories ↓ **0.8%**, and the inventory-to-sales ratio ↓ **2.2%.**
Index of Industrial Production (p. 16)	↑ **0.5%** in July from June.
Capacity Utilization (p. 18)	↑ **to 68.5%** in July from 68.1% in June.
Non-Farm Employment (p. 19)	↓ **247,000** in July from June.
Unemployment Rate (p. 19)	↓ **to 9.4%** in July from 9.5% in June.
Class I Railroad Employment (p. 20)	↓ **to 149,614** in June from 151,536 in May.
Index of Consumer Confidence (p. 20)	↓ **to 46.6** in July from 49.3 in June.
Retail Sales (p. 21)	↓ **0.1%** in July from June.
Light Vehicle Sales (p. 22)	↑ **15%** on annualized basis in July from June.
Housing Starts (p. 23)	↓ **1.0%** in July from June.
Consumer Price Index (p. 23)	Virtually **unchanged** in July from June.
Railroad Cost Index (p. 24)	From Q1 '09 to Q2 '09, wages ↑ **0.2%**; wage supplements ↑ **0.1%**; fuel ↓ **0.4%;** materials & supplies, ↓ **3.8%**.
Value of the U.S. Dollar (p. 25)	↓ **0.4%** in July from June.
Dow Jones Economic Sentiment Indicator (p. 25)	↑ **to 33.6** in July from 31.8 in June.

U.S. AND CANADIAN FREIGHT RAILROAD TRAFFIC

Who releases it and when?

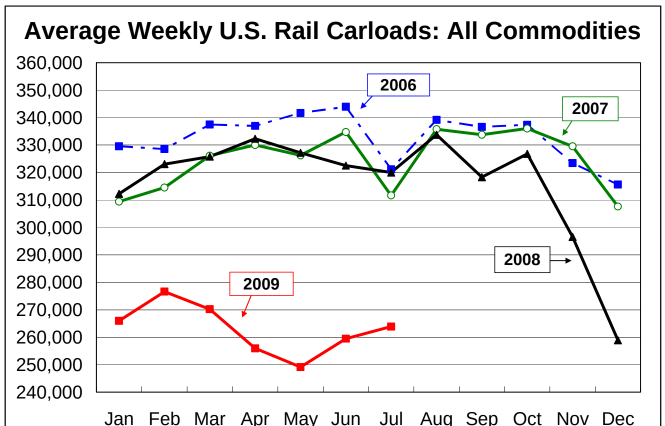
- The Association of American Railroads (AAR), every Thursday morning, in the AAR's *Weekly Railroad Traffic* report.

What is it and why is it important?

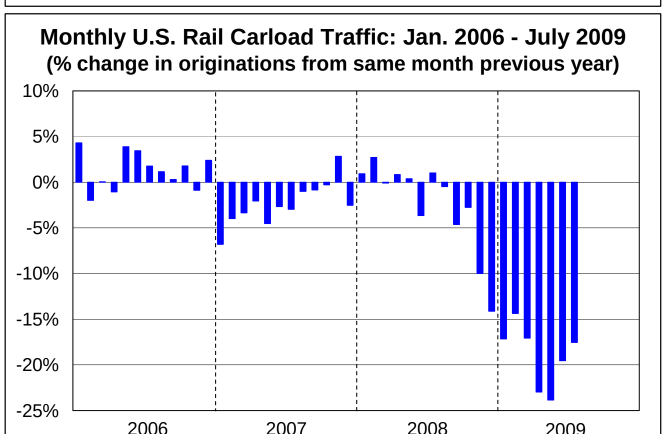
- The weekly AAR data detail rail carloadings for 19 different major commodity categories, as well as intermodal units (trailers and containers), for the previous week. Railroads that report their data to the AAR collectively account for the vast majority of total U.S. and Canadian freight rail traffic. Rail Time Indicators aggregates these data into monthly figures.
- Freight railroading is a "derived demand" industry — *i.e.*, demand for rail service occurs as a result of demand elsewhere in the economy for the products that railroads haul. Thus, freight rail traffic is a useful economic indicator, both for the overall economy and for specific sub-sectors.

What are the latest numbers for U.S. railroads?

- **Carloads** originated on U.S. freight railroads in July 2009 totaled 1,319,387, **down 17.5%** (280,659 carloads) **from July 2008**. July marked the ninth straight double-digit monthly carload decline for U.S. rail carloads, but the **decline in July was smaller than in April, May, or June.**
- Average weekly carloads on U.S. railroads in July 2009 (263,877) were almost **4,400 carloads higher than in June 2009** and nearly **15,000 carloads higher than in May 2009**. Is this proof that the carload recession is over? Not at all. But traffic is at least heading in the right direction, albeit slowly.
- In July 2009, U.S. **intermodal traffic** (which is not included in the carload figures discussed above) totaled 922,734 trailers and containers, **down 18.0%** (203,061 units) compared to July 2008 (see charts at top of next page).
- The **weekly average intermodal count on U.S. railroads in July 2009** was 184,547 trailers and containers, **down 4,200 units from June 2009** and only slightly higher than the February-May 2009 average. Thus, intermodal traffic did not have the same incremental improvement in July 2009 that carloads had. This isn't really surprising, given that intermodal traffic has much more of a consumer and intermodal focus than carload traffic and consumer spending is still feeble (see "Retail Sales" on page 21).



Data are weekly average originations for each month, exclude U.S. operations of CN and CP, and reflect revisions from original reporting. Source: AAR *Weekly Railroad Traffic*



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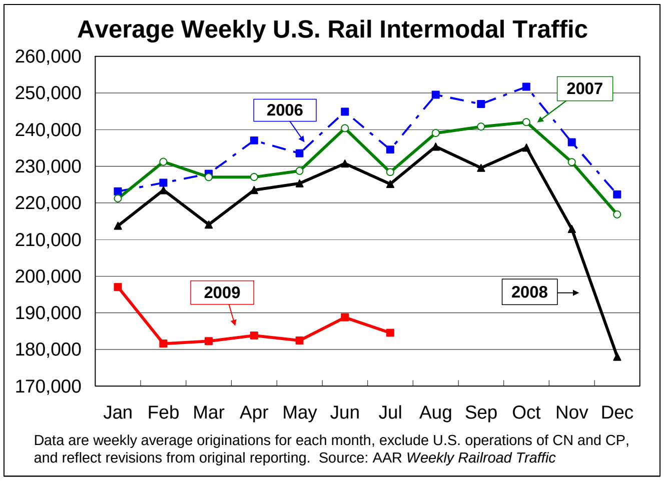
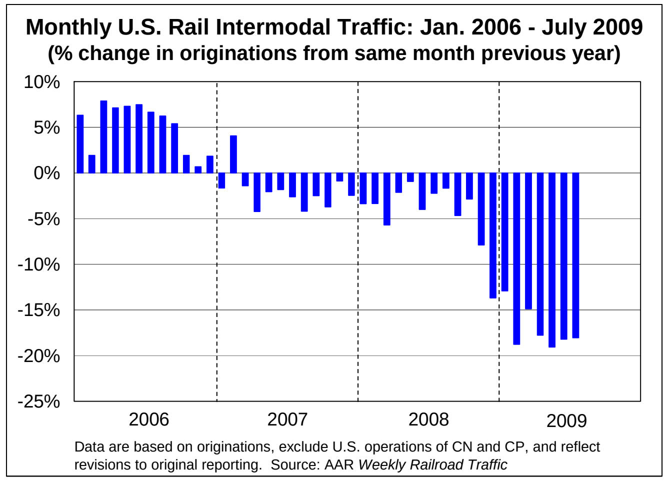
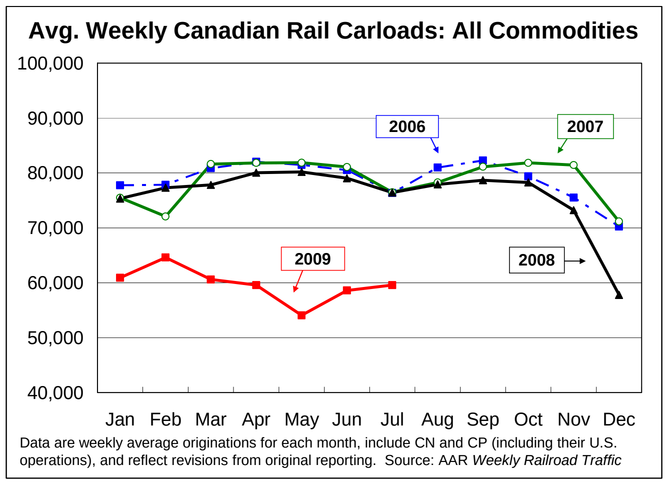
- For the first seven months of 2009, U.S. rail carloadings were down 19.0% (1,854,657 carloads), while intermodal traffic was down 17.2% (1,153,208 trailers and containers).

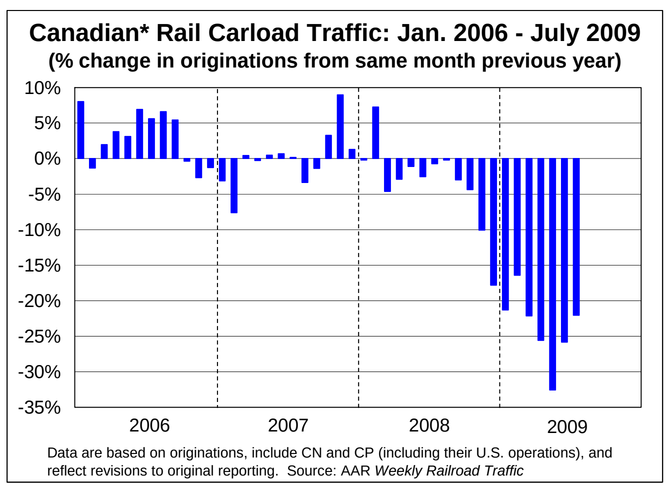




What are the latest numbers for Canadian railroads?

- **Canadian carload traffic**, which includes the combined Canadian and U.S. operations of CN and Canadian Pacific, **fell 22.0%** (84,210 carloads) **in July 2009** to 297,914 carloads, while **Canadian intermodal traffic fell 19.2%** (47,628 units) to 200,294 trailers and containers in July (see charts on this page for carloads and at the top of page 11 for intermodal).
- Average weekly carloads on Canadian railroads in July 2009 (59,583 carloads) were up almost **1,000 carloads from June 2009** and **up approximately 5,500 carloads from May 2009**. Not a reason for wild celebration, but the Canadian carload numbers, like the U.S. numbers — have at least been moving in the right direction the past couple of months.
- Average weekly intermodal units on Canadian railroads in July 2009 were **up approximately 1,000 units** from June 2009.
- For the first seven months of 2009, Canadian rail carloadings were down 23.8% (558,373 carloads), while intermodal traffic was down 16.2% (233,059 trailers and containers). Like their U.S. counterparts — and, in fact, like businesses in nearly every industry — Canadian railroads have a lot of catching up to do.





Where to go for more information:

- Weekly AAR press releases on railroad traffic are available on the AAR web site here.

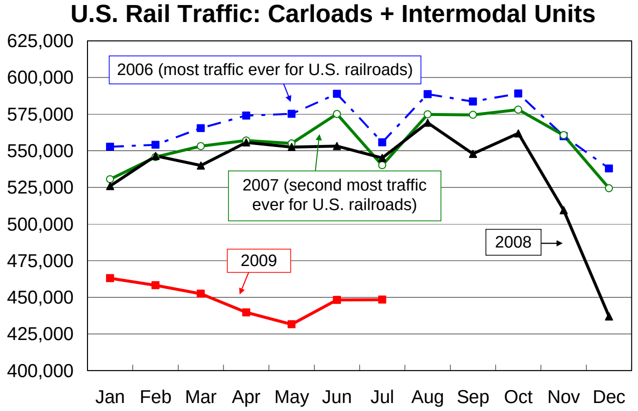
U.S. RAIL TRAFFIC*

Commodity	July 09	July 08	Differ.	% Chng	YTD 2009	YTD 2008	Differ.	% Chng
Agricultural & food products	**181,390**	**209,259**	**-27,869**	**-13.3%**	**1,058,589**	**1,292,037**	**-233,448**	**-18.1%**
Grain	98,776	119,471	-20,695	-17.3%	560,275	726,931	-166,656	-22.9%
Farm products excl. grain	3,785	4,163	-378	-9.1%	23,016	31,326	-8,310	-26.5%
Grain mill products (1)	40,891	42,856	-1,965	-4.6%	243,277	265,378	-22,101	-8.3%
Food products	37,938	42,769	-4,831	-11.3%	232,021	268,402	-36,381	-13.6%
Chemicals	**161,279**	**186,795**	**-25,516**	**-13.7%**	**936,396**	**1,120,502**	**-184,106**	**-16.4%**
Chemicals	134,063	154,972	-20,909	-13.5%	774,608	930,818	-156,210	-16.8%
Petroleum products	27,216	31,823	-4,607	-14.5%	161,788	189,684	-27,896	-14.7%
Coal	**628,295**	**697,174**	**-68,879**	**-9.9%**	**3,876,957**	**4,247,324**	**-370,367**	**-8.7%**
Forest products	**49,021**	**65,910**	**-16,889**	**-25.6%**	**287,143**	**397,822**	**-110,679**	**-27.8%**
Primary forest products (2)	8,155	10,564	-2,409	-22.8%	44,227	65,389	-21,162	-32.4%
Lumber & wood products	11,519	18,190	-6,671	-36.7%	71,203	115,289	-44,086	-38.2%
Pulp & paper products	29,347	37,156	-7,809	-21.0%	171,713	217,144	-45,431	-20.9%
Metallic ores and metals	**65,799**	**127,824**	**-62,025**	**-48.5%**	**338,065**	**692,375**	**-354,310**	**-51.2%**
Metallic ores (3)	18,677	45,401	-26,724	-58.9%	83,242	198,807	-115,565	-58.1%
Coke	14,364	19,816	-5,452	-27.5%	81,370	113,673	-32,303	-28.4%
Primary metal products (4)	32,758	62,607	-29,849	-47.7%	173,453	379,895	-206,442	-54.3%
Motor vehicles & parts	**37,792**	**60,464**	**-22,672**	**-37.5%**	**261,827**	**513,995**	**-252,168**	**-49.1%**
Nonmetallic minerals & prod.	**136,889**	**176,693**	**-39,804**	**-22.5%**	**781,820**	**1,016,557**	**-234,737**	**-23.1%**
Crushed stone, gravel, sand	75,753	102,155	-26,402	-25.8%	455,218	589,745	-134,527	-22.8%
Nonmetallic minerals (5)	26,358	30,324	-3,966	-13.1%	132,287	176,551	-44,264	-25.1%
Stone, clay & glass prod. (6)	34,778	44,214	-9,436	-21.3%	194,315	250,261	-55,946	-22.4%
Other	**58,922**	**75,927**	**-17,005**	**-22.4%**	**344,242**	**459,084**	**-114,842**	**-25.0%**
Waste & scrap materials (7)	36,748	51,318	-14,570	-28.4%	195,789	309,815	-114,026	-36.8%
All other carloads	22,174	24,609	-2,435	-9.9%	148,453	149,269	-816	-0.5%
TOTAL ALL CARLOADS	**1,319,387**	**1,600,046**	**-280,659**	**-17.5%**	**7,885,039**	**9,739,696**	**-1,854,657**	**-19.0%**
Trailers	149,161	240,257	-91,096	-37.9%	951,859	1,459,900	-508,041	-34.8%
Containers	773,573	885,538	-111,965	-12.6%	4,617,943	5,263,110	-645,167	-12.3%
TOTAL ALL INTERMODAL	**922,734**	**1,125,795**	**-203,061**	**-18.0%**	**5,569,802**	**6,723,010**	**-1,153,208**	**-17.2%**

(1) - flour, animal feed, corn syrup, corn starch, soybean meal, etc.
(2) - wood raw materials such as pulpwood and wood chips
(3) - overwhelmingly iron ore, but some aluminum ore, copper ore, etc.
(4) - primarily iron & steel products; some aluminum, copper, etc.
(5) - phosphate rock, rock salt, crude sulphur, clay, etc.
(6) - cement, ground earths or minerals, gypsum products, etc.
(7) - scrap metal and paper, construction debris, ashes, etc.

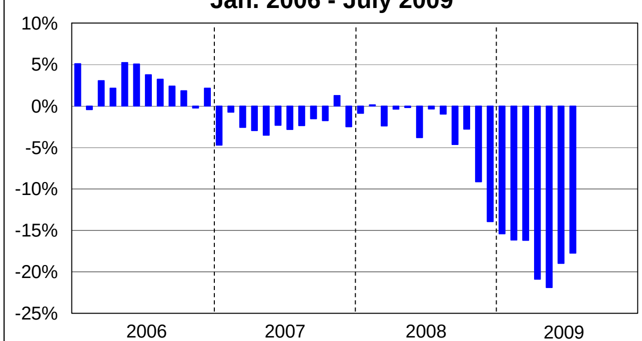
*Data are originations. Includes BNSF, CSX, KCS, NS, UP, Birmingham Southern, Florida East Coast, Lake Superior & Ishpeming, and Paducah & Louisville. Does not include CN's and CP's U.S. operations. Source: AAR *Weekly Railroad Traffic*

U.S. Rail Traffic: Carloads + Intermodal Units



Data are weekly average originations for each month, exclude U.S. operations of CN and CP, and reflect revisions from original reporting. Source: AAR *Weekly Railroad Traffic*

% Change in Total U.S. Rail Carloads + Intermodal Units From Same Month Previous Year: Jan. 2006 - July 2009



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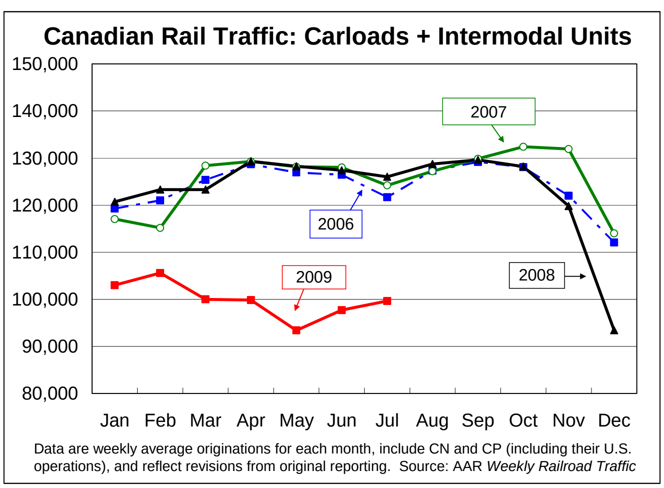
CANADIAN RAIL TRAFFIC*

Commodity	July 09	July 08	Differ.	% Chng	YTD 2009	YTD 2008	Differ.	% Chng
Agricultural & food products	**75,557**	**69,164**	**6,393**	**9.2%**	**475,888**	**462,129**	**13,759**	**3.0%**
Grain	45,854	41,633	4,221	10.1%	280,811	283,833	-3,022	-1.1%
Farm products excl. grain	11,662	8,828	2,834	32.1%	89,797	63,925	25,872	40.5%
Grain mill products (1)	7,090	8,436	-1,346	-16.0%	41,663	50,110	-8,447	-16.9%
Food products	10,951	10,267	684	6.7%	63,617	64,261	-644	-1.0%
Chemicals	**61,041**	**76,205**	**-15,164**	**-19.9%**	**361,995**	**478,563**	**-116,568**	**-24.4%**
Chemicals	57,953	72,644	-14,691	-20.2%	343,650	458,869	-115,219	-25.1%
Petroleum products	3,088	3,561	-473	-13.3%	18,345	19,694	-1,349	-6.8%
Coal	**37,460**	**37,916**	**-456**	**-1.2%**	**193,404**	**240,340**	**-46,936**	**-19.5%**
Forest products	**34,056**	**44,954**	**-10,898**	**-24.2%**	**207,091**	**268,767**	**-61,676**	**-22.9%**
Primary forest products (2)	6,575	9,353	-2,778	-29.7%	42,768	52,649	-9,881	-18.8%
Lumber & wood products	9,952	13,088	-3,136	-24.0%	60,084	82,416	-22,332	-27.1%
Pulp & paper products	17,529	22,513	-4,984	-22.1%	104,239	133,702	-29,463	-22.0%
Metallic ores and metals	**43,464**	**87,476**	**-44,012**	**-50.3%**	**280,287**	**499,113**	**-218,826**	**-43.8%**
Metallic ores (3)	34,660	70,671	-36,011	-51.0%	221,190	400,856	-179,666	-44.8%
Coke	1,760	2,614	-854	-32.7%	10,817	12,334	-1,517	-12.3%
Primary metal products (4)	7,044	14,191	-7,147	-50.4%	48,280	85,923	-37,643	-43.8%
Motor vehicles & parts	**15,443**	**21,869**	**-6,426**	**-29.4%**	**101,946**	**166,565**	**-64,619**	**-38.8%**
Nonmetallic minerals & prod.	**21,518**	**31,735**	**-10,217**	**-32.2%**	**110,450**	**155,456**	**-45,006**	**-29.0%**
Crushed stone, gravel, sand	8,547	15,424	-6,877	-44.6%	39,235	62,353	-23,118	-37.1%
Nonmetallic minerals (5)	5,916	7,529	-1,613	-21.4%	36,959	47,024	-10,065	-21.4%
Stone, clay & glass prod. (6)	7,055	8,782	-1,727	-19.7%	34,256	46,079	-11,823	-25.7%
Other	**9,375**	**12,805**	**-3,430**	**-26.8%**	**59,945**	**78,446**	**-18,501**	**-23.6%**
Waste & scrap materials (7)	5,392	8,324	-2,932	-35.2%	30,520	50,892	-20,372	-40.0%
All other carloads	3,983	4,481	-498	-11.1%	29,425	27,554	1,871	6.8%
TOTAL ALL CARLOADS	**297,914**	**382,124**	**-84,210**	**-22.0%**	**1,791,006**	**2,349,379**	**-558,373**	**-23.8%**
Trailers	7,826	9,735	-1,909	-19.6%	47,525	59,466	-11,941	-20.1%
Containers	192,468	238,187	-45,719	-19.2%	1,157,629	1,378,747	-221,118	-16.0%
TOTAL ALL INTERMODAL	**200,294**	**247,922**	**-47,628**	**-19.2%**	**1,205,154**	**1,438,213**	**-233,059**	**-16.2%**

(1) - flour, animal feed, corn syrup, corn starch, soybean meal, etc.
(2) - wood raw materials such as pulpwood and wood chips
(3) - overwhelmingly iron ore, but some aluminum ore, copper ore, etc.
(4) - primarily iron & steel products; some aluminum, copper, etc.
(5) - phosphate rock, rock salt, crude sulphur, clay, etc.
(6) - cement, ground earths or minerals, gypsum products, etc.
(7) - scrap metal and paper, construction debris, ashes, etc.

*CN and CP, including their U.S. operations. Source: AAR *Weekly Railroad Traffic*



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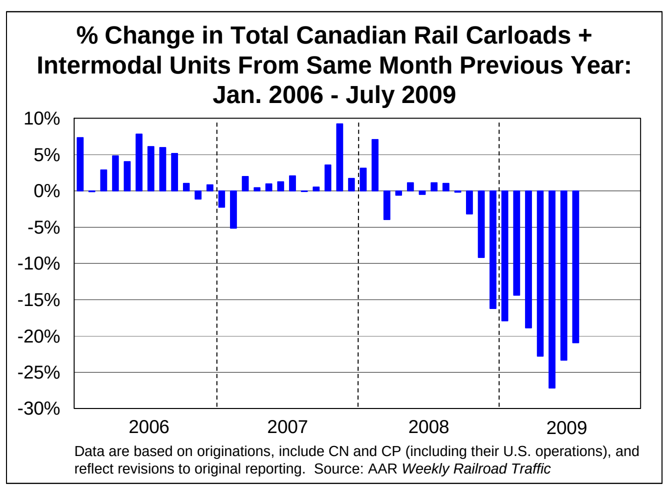

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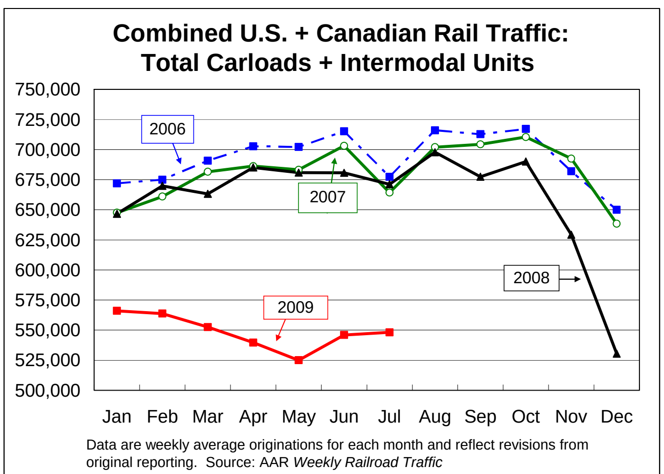
COMBINED U.S. AND CANADIAN RAIL TRAFFIC

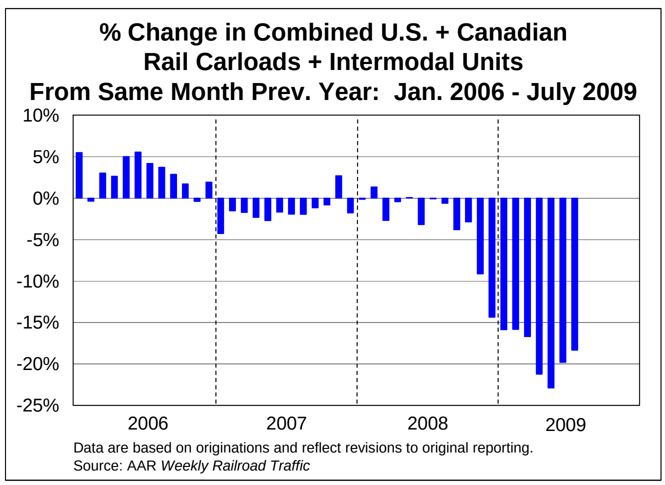
Commodity	July 09	July 08	Differ.	% Chng	YTD 2009	YTD 2008	Differ.	% Chng
Agricultural & food products	**256,947**	**278,423**	**-21,476**	**-7.7%**	**1,534,477**	**1,754,166**	**-219,689**	**-12.5%**
Grain	144,630	161,104	-16,474	-10.2%	841,086	1,010,764	-169,678	-16.8%
Farm products excl. grain	15,447	12,991	2,456	18.9%	112,813	95,251	17,562	18.4%
Grain mill products (1)	47,981	51,292	-3,311	-6.5%	284,940	315,488	-30,548	-9.7%
Food products	48,889	53,036	-4,147	-7.8%	295,638	332,663	-37,025	-11.1%
Chemicals	**222,320**	**263,000**	**-40,680**	**-15.5%**	**1,298,391**	**1,599,065**	**-300,674**	**-18.8%**
Chemicals	192,016	227,616	-35,600	-15.6%	1,118,258	1,389,687	-271,429	-19.5%
Petroleum products	30,304	35,384	-5,080	-14.4%	180,133	209,378	-29,245	-14.0%
Coal	**665,755**	**735,090**	**-69,335**	**-9.4%**	**4,070,361**	**4,487,664**	**-417,303**	**-9.3%**
Forest products	**83,077**	**110,864**	**-27,787**	**-25.1%**	**494,234**	**666,589**	**-172,355**	**-25.9%**
Primary forest products (2)	14,730	19,917	-5,187	-26.0%	86,995	118,038	-31,043	-26.3%
Lumber & wood products	21,471	31,278	-9,807	-31.4%	131,287	197,705	-66,418	-33.6%
Pulp & paper products	46,876	59,669	-12,793	-21.4%	275,952	350,846	-74,894	-21.3%
Metallic ores and metals	**109,263**	**215,300**	**-106,037**	**-49.3%**	**618,352**	**1,191,488**	**-573,136**	**-48.1%**
Metallic ores (3)	53,337	116,072	-62,735	-54.0%	304,432	599,663	-295,231	-49.2%
Coke	16,124	22,430	-6,306	-28.1%	92,187	126,007	-33,820	-26.8%
Primary metal products (4)	39,802	76,798	-36,996	-48.2%	221,733	465,818	-244,085	-52.4%
Motor vehicles & parts	**53,235**	**82,333**	**-29,098**	**-35.3%**	**363,773**	**680,560**	**-316,787**	**-46.5%**
Nonmetallic minerals & prod.	**158,407**	**208,428**	**-50,021**	**-24.0%**	**892,270**	**1,172,013**	**-279,743**	**-23.9%**
Crushed stone, gravel, sand	84,300	117,579	-33,279	-28.3%	494,453	652,098	-157,645	-24.2%
Nonmetallic minerals (5)	32,274	37,853	-5,579	-14.7%	169,246	223,575	-54,329	-24.3%
Stone, clay & glass prod. (6)	41,833	52,996	-11,163	-21.1%	228,571	296,340	-67,769	-22.9%
Other	**68,297**	**88,732**	**-20,435**	**-23.0%**	**404,187**	**537,530**	**-133,343**	**-24.8%**
Waste & scrap materials (7)	42,140	59,642	-17,502	-29.3%	226,309	360,707	-134,398	-37.3%
All other carloads	26,157	29,090	-2,933	-10.1%	177,878	176,823	1,055	0.6%
TOTAL ALL CARLOADS	**1,617,301**	**1,982,170**	**-364,869**	**-18.4%**	**9,676,045**	**12,089,075**	**-2,413,030**	**-20.0%**
Trailers	**156,987**	**249,992**	-93,005	-37.2%	999,384	1,519,366	-519,982	-34.2%
Containers	**966,041**	**1,123,725**	-157,684	-14.0%	5,775,572	6,641,857	-866,285	-13.0%
TOTAL ALL INTERMODAL	**1,123,028**	**1,373,717**	**-250,689**	**-18.2%**	**6,774,956**	**8,161,223**	**-1,386,267**	**-17.0%**

(1) - flour, animal feed, corn syrup, corn starch, soybean meal, etc.
(2) - wood raw materials such as pulpwood and wood chips
(3) - overwhelmingly iron ore, but some aluminum ore, copper ore, etc.
(4) - primarily iron & steel products; some aluminum, copper, etc.
(5) - phosphate rock, rock salt, crude sulphur, clay, etc.
(6) - cement, ground earths or minerals, gypsum products, etc.
(7) - scrap metal and paper, construction debris, ashes, etc.

Source: AAR *Weekly Railroad Traffic*

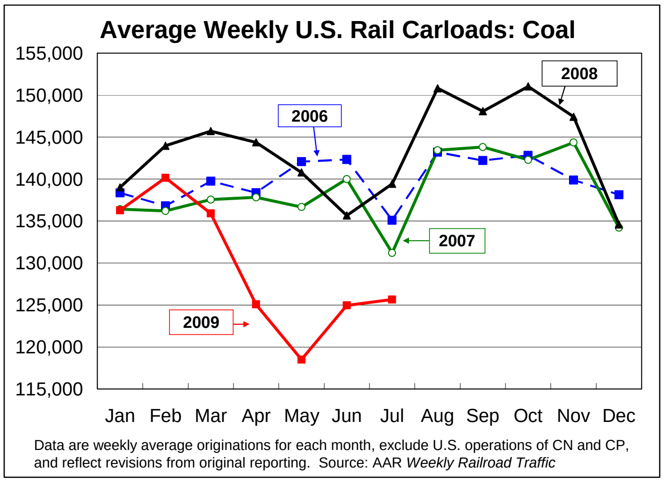


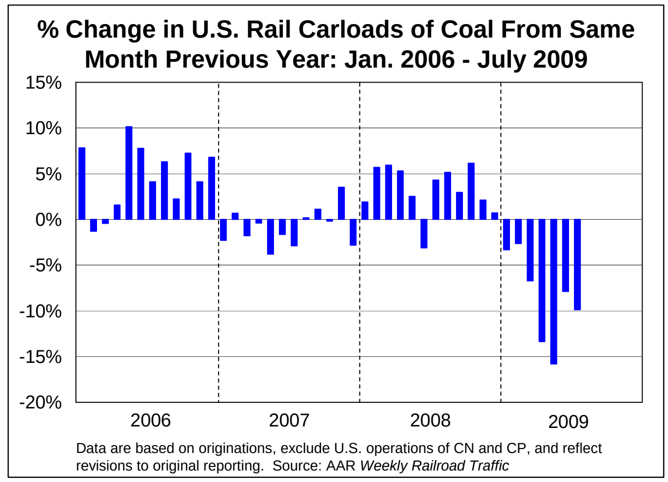
Data are weekly average originations for each month and reflect revisions from original reporting. Source: AAR *Weekly Railroad Traffic*

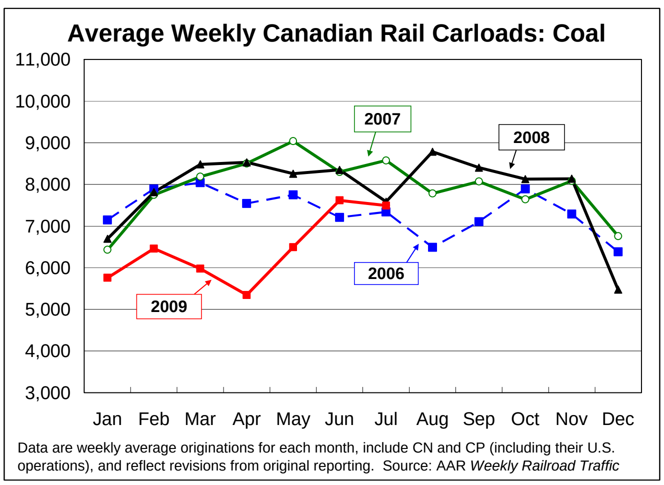


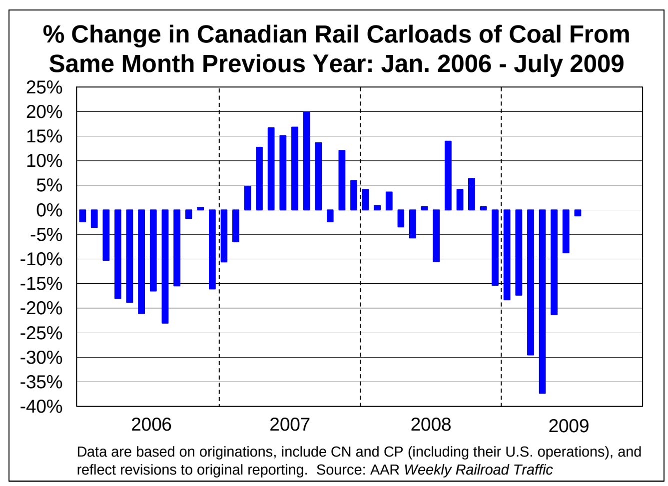
Data are based on originations and reflect revisions to original reporting. Source: AAR *Weekly Railroad Traffic*

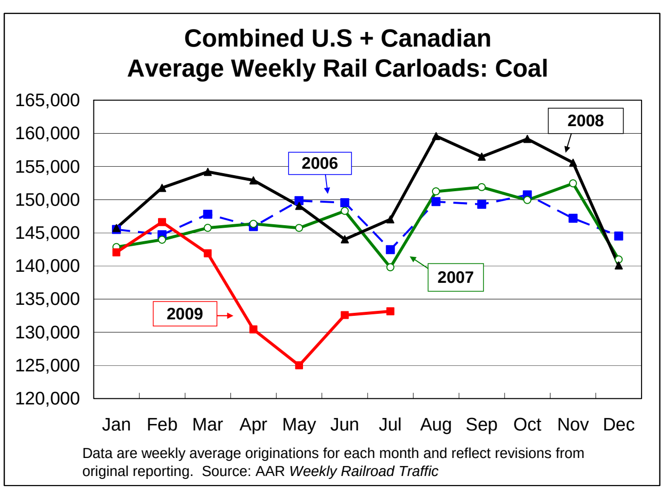
***Coal**, which accounts for around half of U.S. electricity generation, is the single most important commodity carried by U.S. railroads. In 2008, it accounted for 45% of rail tonnage, 25% of carloads, and 23% of gross revenue. Rail coal traffic in 2009 had been holding up well until April, when it dropped sharply. Three reasons for the decline: reduced electricity demand (for example, due to factory shut downs and mild summers in many areas; lower coal exports, in part due to lower demand abroad and in part due to an increase in the value of the dollar (see page 25); and lower natural gas prices, which make electricity generated by natural gas more competitive compared to electricity generated from coal.*

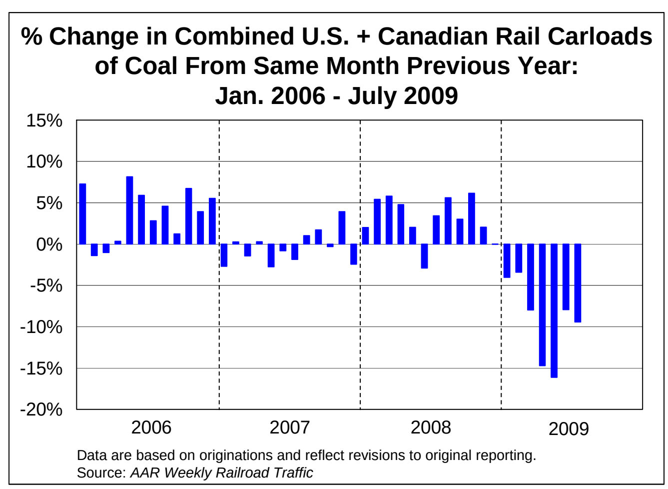




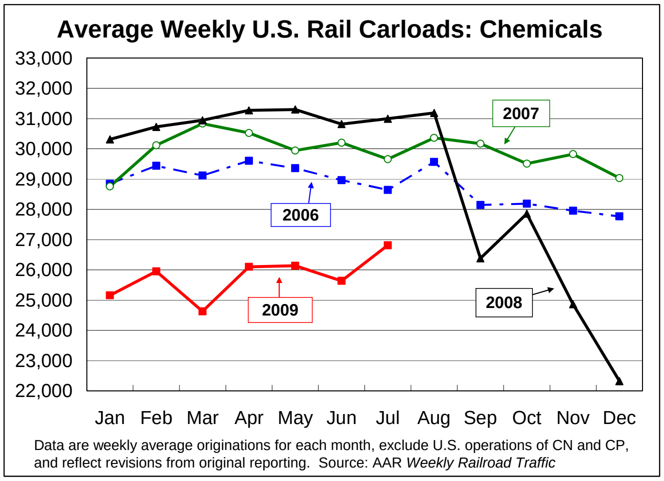


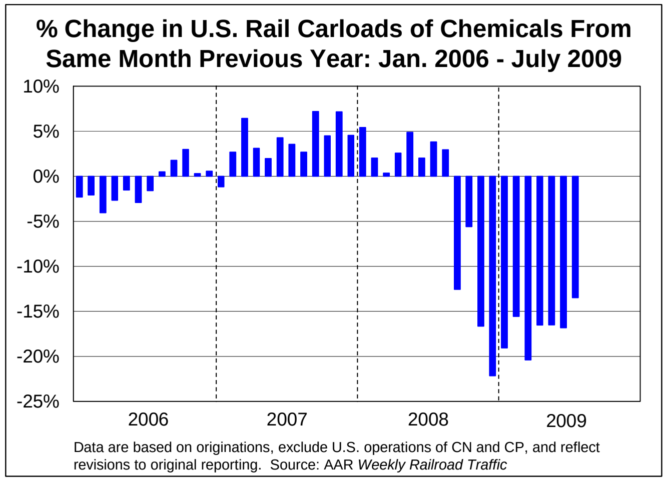


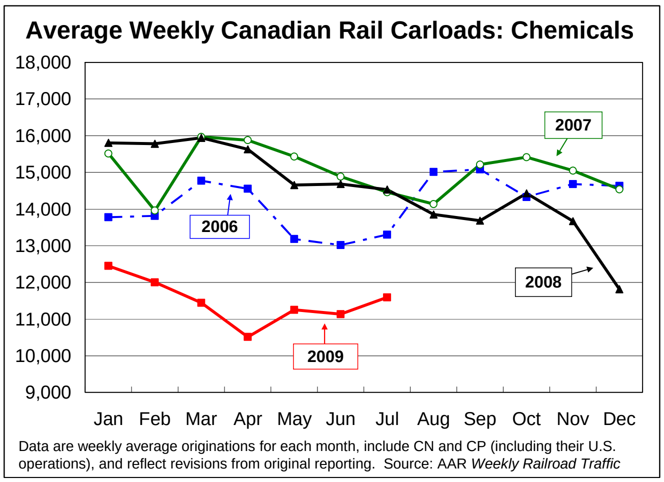


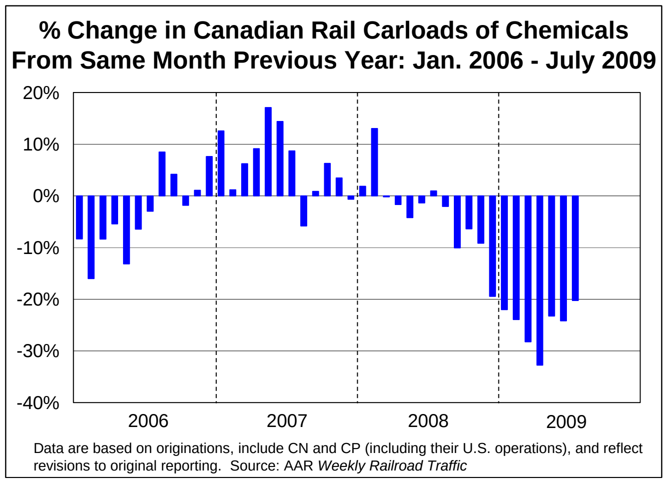


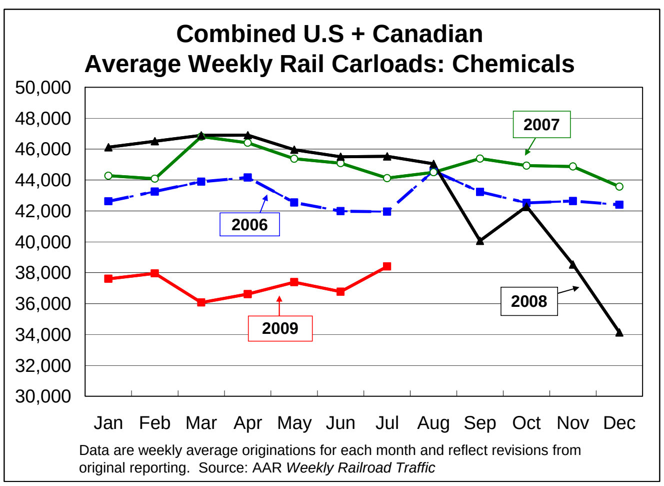
Chemicals *accounted for 9% of rail tonnage, 7% of carloads, and 13% of gross revenue in 2008, ranking chemicals second or third among all commodity categories. More than half of rail chemical tonnage consists of various industrial chemicals, including potassium chloride, sodium carbonate (soda ash), sodium hydroxide (caustic soda), sulfuric acid, urea, and anhydrous ammonia. Plastic materials and synthetic resins — including large quantities of polyethylene, polypropylene, polyvinyl chloride, and similar products — account for more than one-fourth of rail chemical tonnage. Most of the rest consist of various types of fertilizers and other agricultural chemicals.*

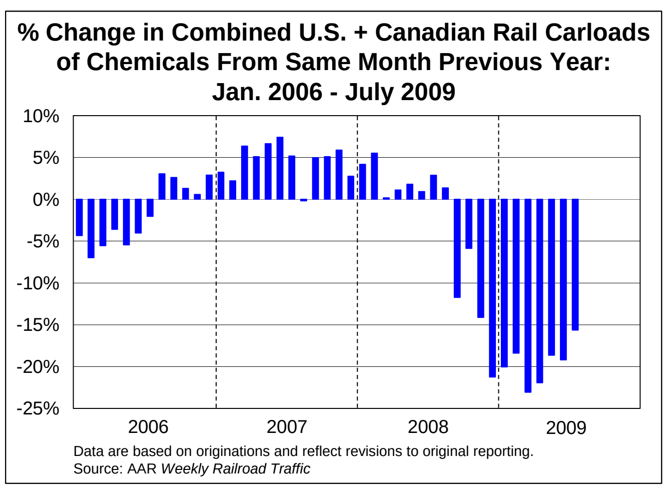




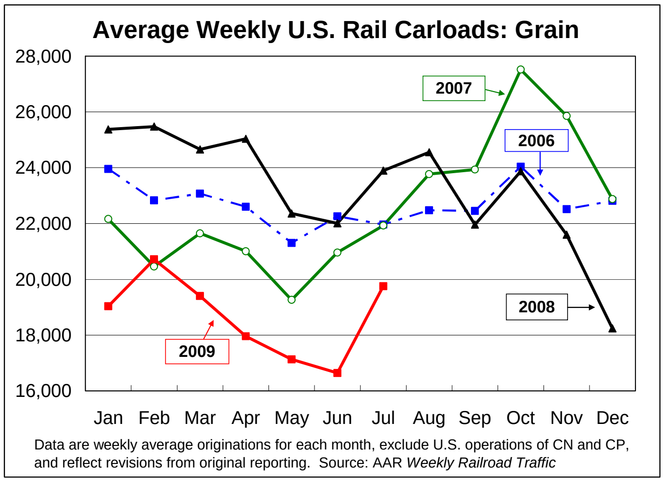


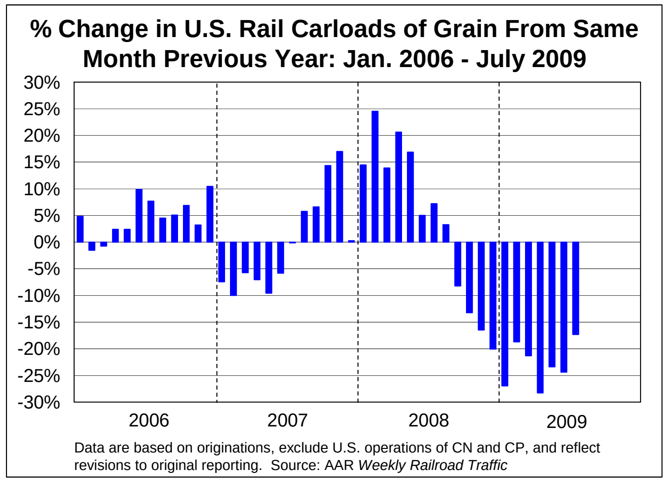


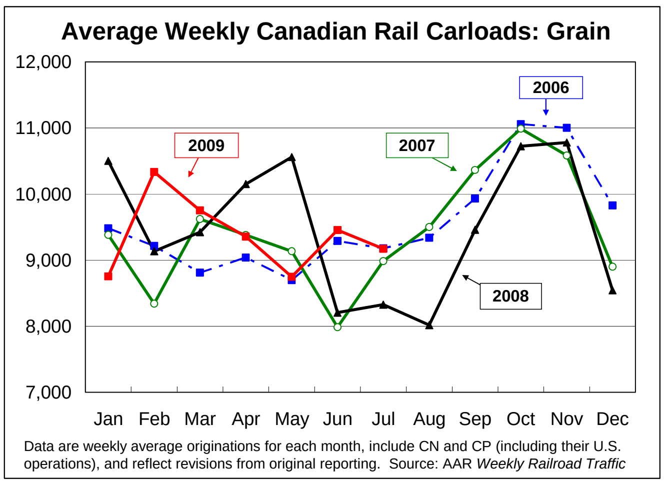


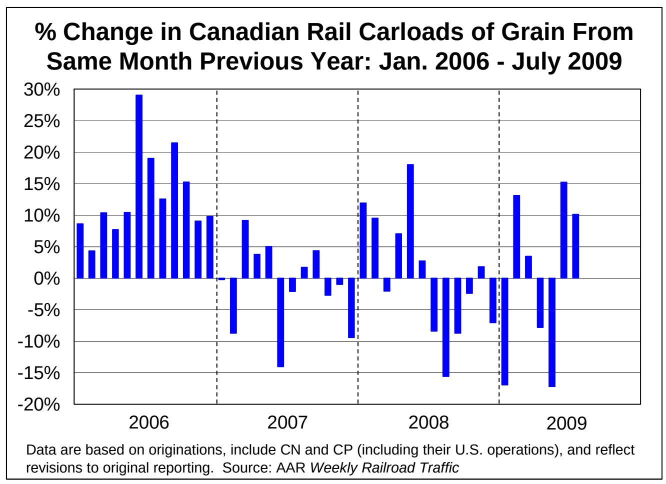


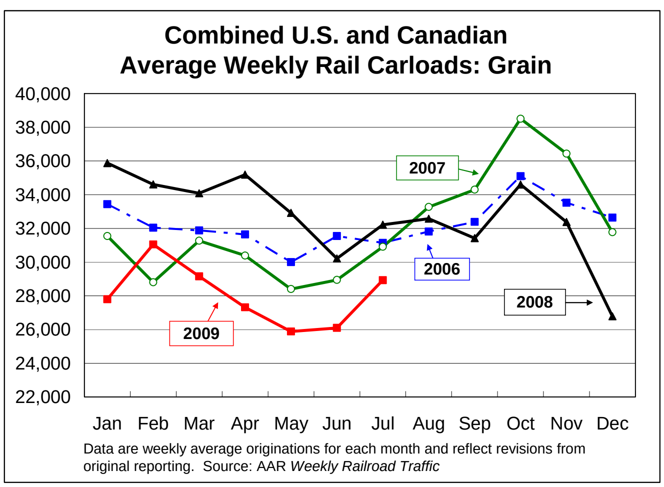
In 2008, ***grain*** *accounted for 8% of rail tonnage, 5% of carloads, and 8% of revenue. Corn accounted for 51% of rail grain tonnage in 2008, followed by wheat (27%), soybeans (15%), and much smaller amounts of sorghum, barley, oats, and other grains. The United States is the world's top grain producer, but from year to year U.S. grain production — and rail grain movements — can fluctuate widely in response to weather, government policies, fertilizer use and prices, the financial condition of the farm sector, trends in markets overseas (the U.S. is the world's top grain exporter), and many other factors.*

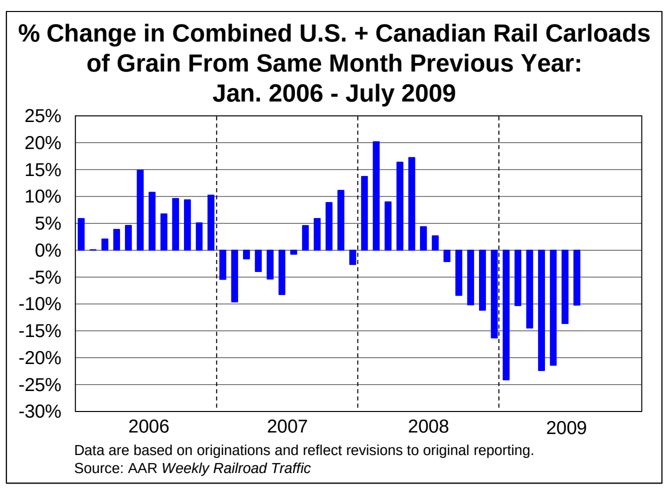


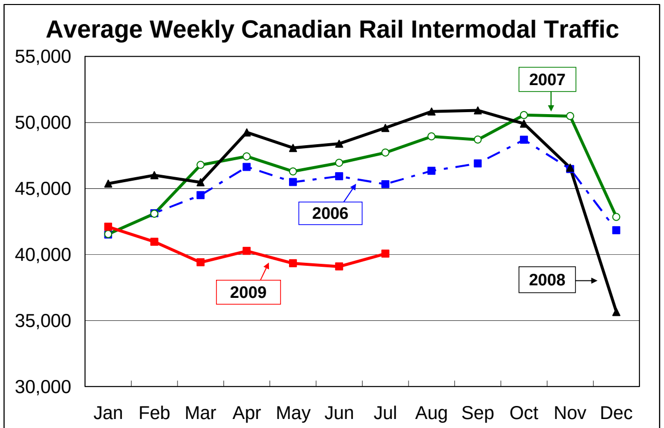




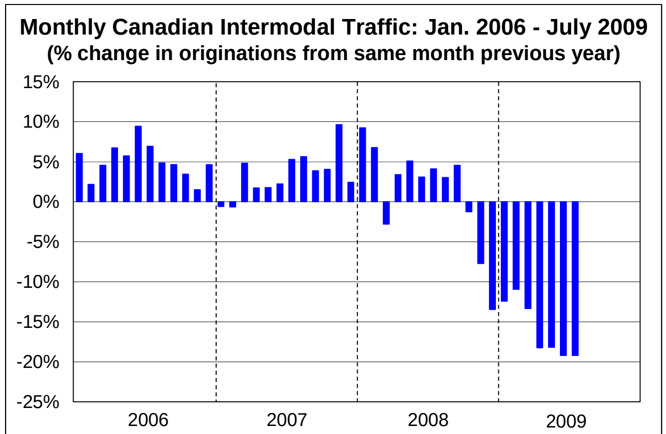








Data are weekly average originations for each month, include CN and CP (including their U.S. operations), and reflect revisions from original reporting. Source: AAR *Weekly Railroad Traffic*



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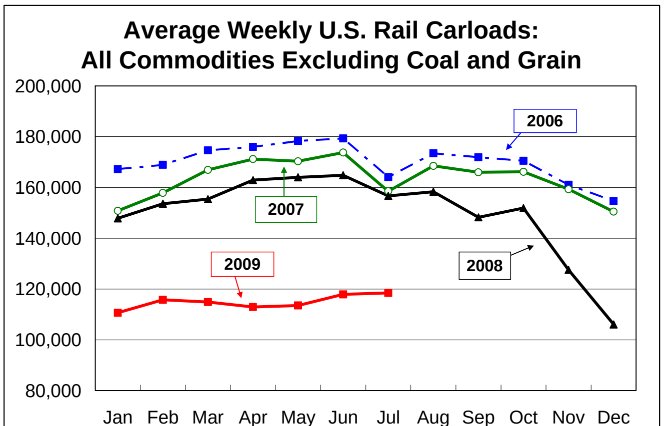

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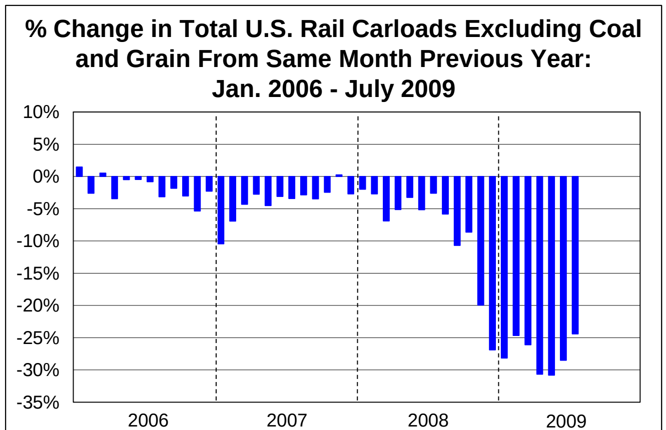

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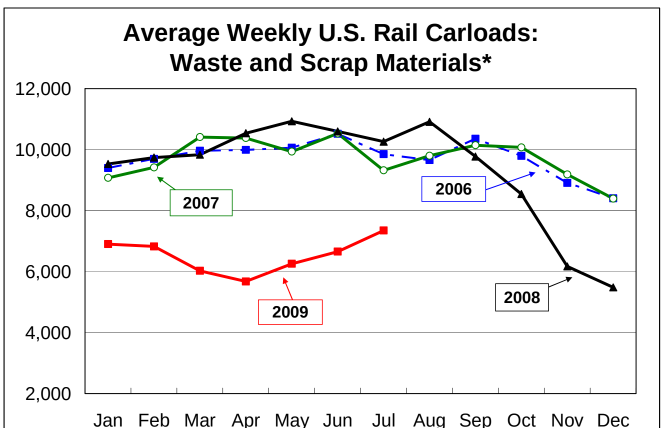
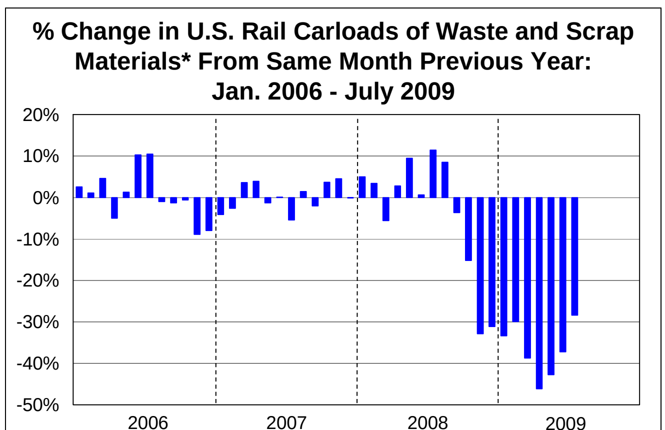
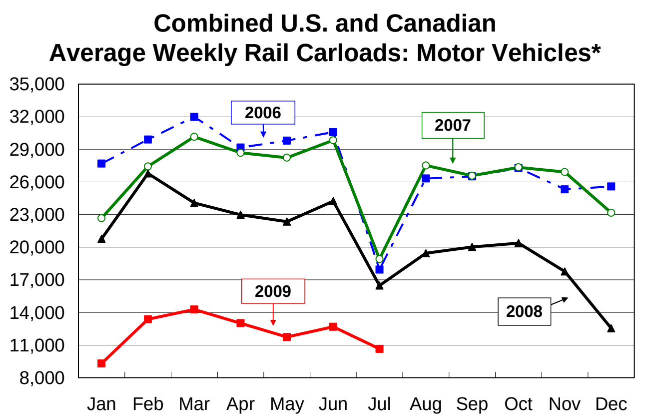


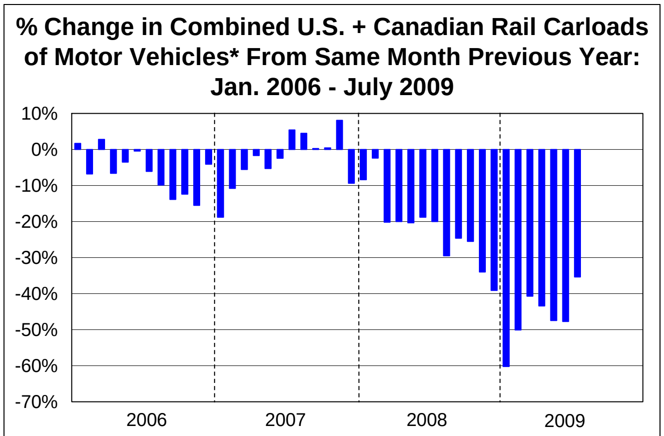
*Mainly scrap metal, scrap paper, and construction debris. Data are weekly average originations for each month, exclude U.S. operations of CN and CP, and reflect revisions from original reporting. Source: AAR



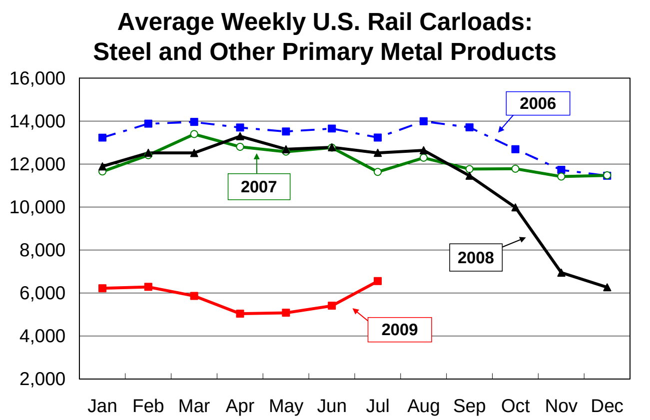
*Mainly scrap metal, scrap paper, and construction debris. Data are based on originations, exclude U.S. operations of CN and CP, and reflect revisions from original reporting. Source: AAR



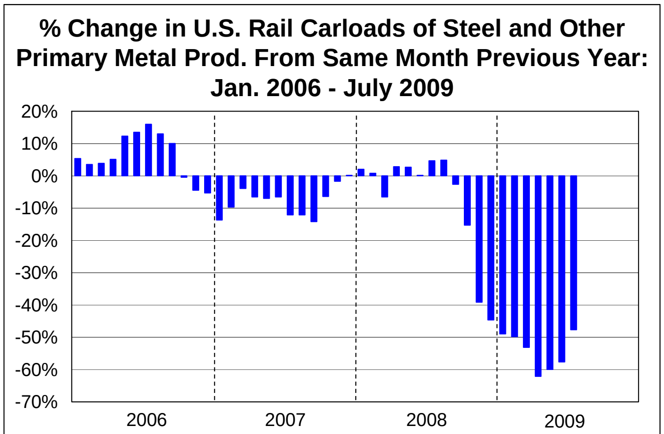
*Includes parts. Data are weekly average originations for each month and reflect revisions from original reporting. Source: AAR *Weekly Railroad Traffic*



*Includes parts. Data are based on originations and reflect revisions to original reporting. Source: AAR *Weekly Railroad Traffic*



Data are weekly average originations for each month, exclude U.S. operations of CN and CP, and reflect revisions from original reporting. Source: AAR *Weekly Railroad Traffic*



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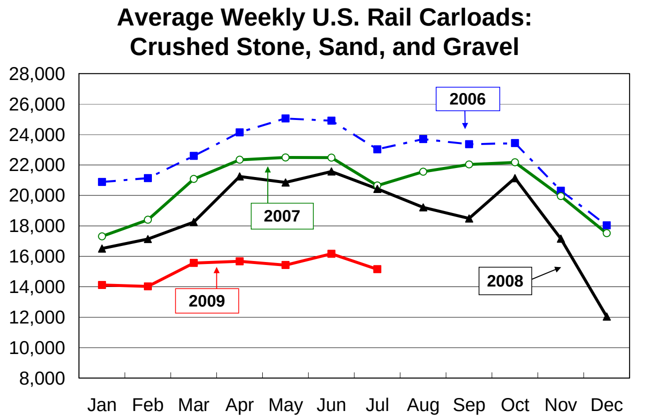

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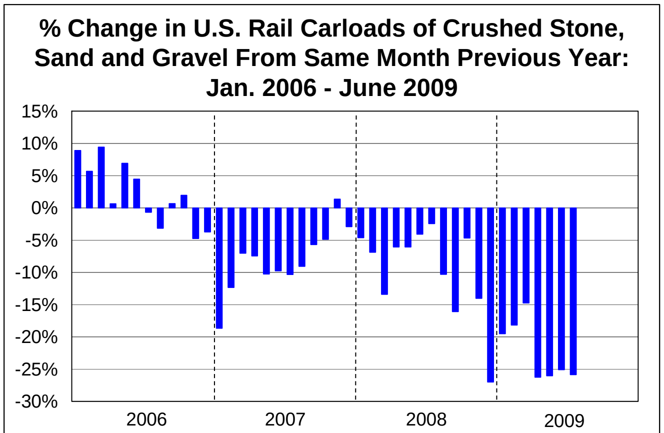

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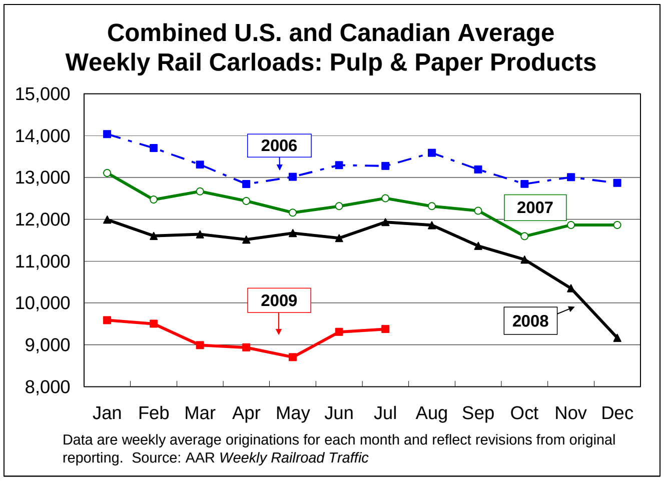
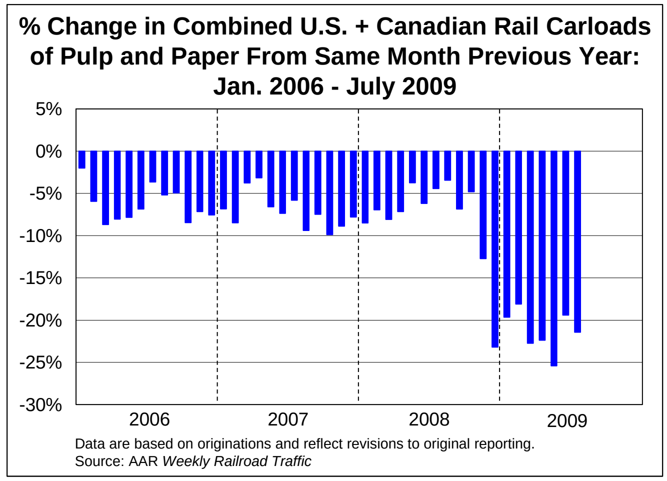
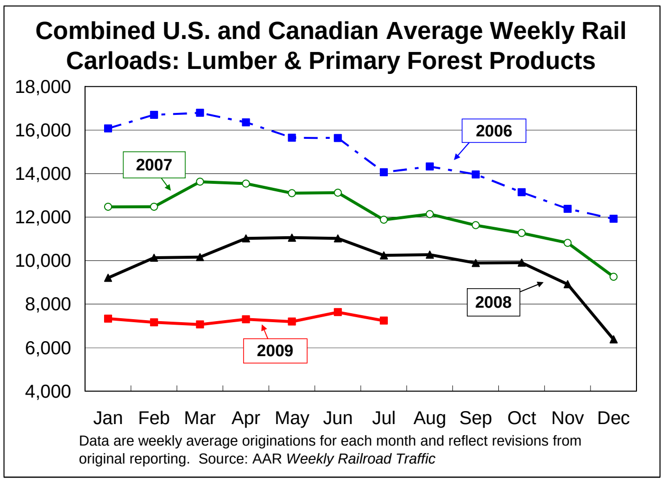
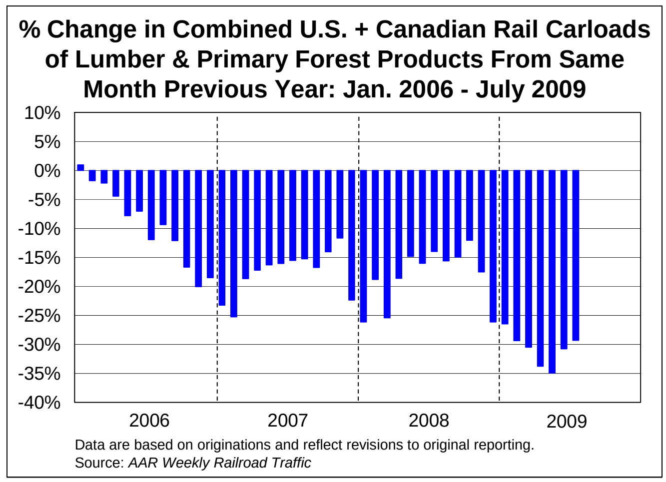
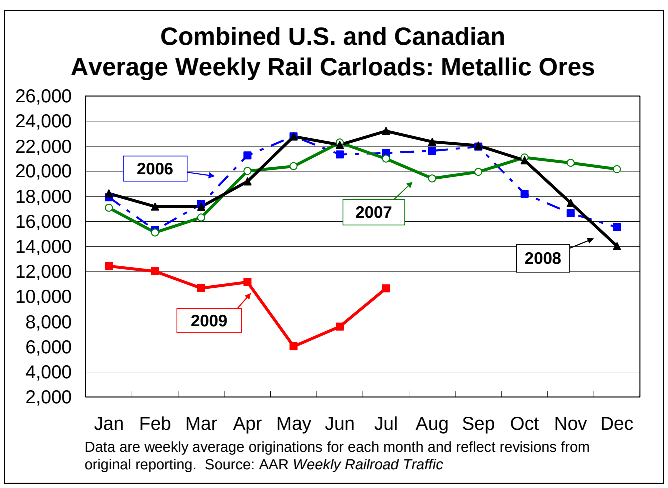
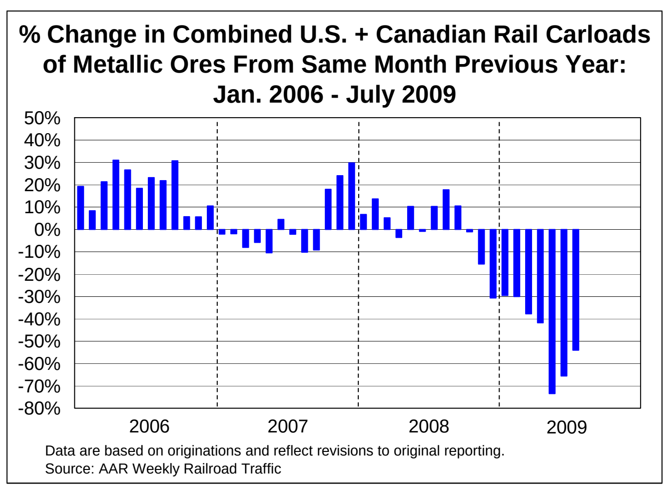

Combined U.S. and Canadian Average
Weekly Rail Carloads: Pulp & Paper Products
15,000
14,000
13,000
12,000
11,000
10,000
9,000
8,000
2006
2007
2009
2008
Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec
Data are weekly average originations for each month and reflect revisions from original reporting. Source: AAR Weekly Railroad Traffic


% Change in Combined U.S. + Canadian Rail Carloads of Pulp and Paper From Same Month Previous Year: Jan. 2006 - July 2009
5%
0%
-5%
-10%
-15%
-20%
-25%
-30%
2006
2007
2008
2009
Data are based on originations and reflect revisions to original reporting.
Source: AAR Weekly Railroad Traffic


Combined U.S. and Canadian Average Weekly Rail Carloads: Lumber & Primary Forest Products
18,000
16,000
14,000
12,000
10,000
8,000
6,000
4,000
2006
2007
2008
2009
Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec
Data are weekly average originations for each month and reflect revisions from original reporting. Source: AAR Weekly Railroad Traffic


% Change in Combined U.S. + Canadian Rail Carloads of Lumber & Primary Forest Products From Same Month Previous Year: Jan. 2006 - July 2009
10%
5%
0%
-5%
-10%
-15%
-20%
-25%
-30%
-35%
-40%
2006
2007
2008
2009
Data are based on originations and reflect revisions to original reporting.
Source: AAR Weekly Railroad Traffic


Combined U.S. and Canadian
Average Weekly Rail Carloads: Metallic Ores
26,000
24,000
22,000
20,000
18,000
16,000
14,000
12,000
10,000
8,000
6,000
4,000
2,000
2006
2007
2008
2009
Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec
Data are weekly average originations for each month and reflect revisions from original reporting. Source: AAR Weekly Railroad Traffic


% Change in Combined U.S. + Canadian Rail Carloads of Metallic Ores From Same Month Previous Year: Jan. 2006 - July 2009
50%
40%
30%
20%
10%
0%
-10%
-20%
-30%
-40%
-50%
-60%
-70%
-80%
2006
2007
2008
2009
Data are based on originations and reflect revisions to original reporting.
Source: AAR Weekly Railroad Traffic

GROSS DOMESTIC PRODUCT (GDP)

Who releases it and when?

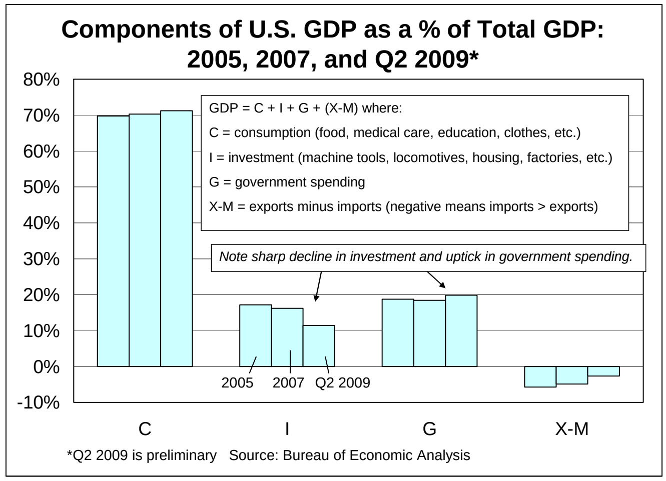
- U.S. Bureau of Economic Analysis (BEA), measured quarterly and revised as better data become available.

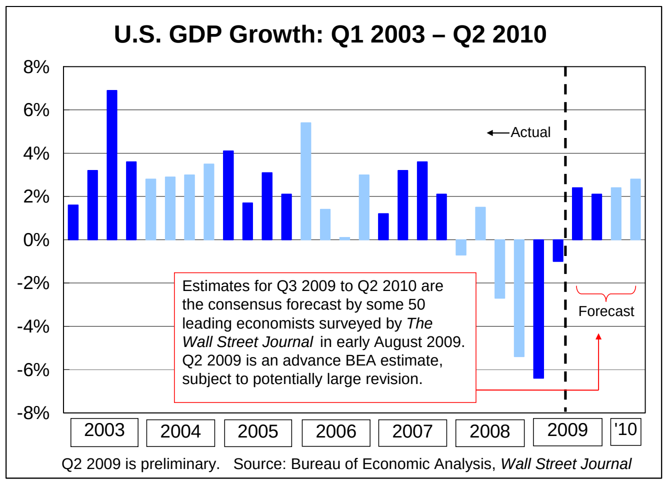
What is it and why is it important?

- GDP measures the size of the economy and how fast it's growing. It's the single most conclusive piece of information on the health of an economy.
- On a broad level, GDP growth and freight rail traffic are closely related.

What are the latest numbers?

- **U.S. GDP fell 1.0% in Q2 2009**, according to the first "advance" BEA estimate released on July 31. This estimate is based on source data that are incomplete or subject to further revision. An updated estimate will be released on August 27. In the first quarter, real GDP fell 6.4%.
- What the BEA said July 31: "The much smaller decrease in real GDP in the second quarter …reflected much smaller decreases in nonresidential fixed investment, in exports, and in private inventory investment, upturns in federal government spending and in state and local government spending, and a smaller decrease in residential fixed investment that were partly offset by a much smaller decrease in imports and a downturn in personal consumption expenditures."





- Each month, *The Wall Street Journal* surveys some 50 leading economists. In the most recent survey, released August 14, **the consensus was that "the recession that began in December 2007 is now over**."
- What the WSJ said: "After months of uncertainty, economists are finally seeing a break in the clouds. Forecasts were revised upward for every period, with **27 economists saying the recession had ended** and 11 seeing a trough this month or next. [GDP] in the third quarter is now expected to show 2.4% growth ...amid signs of life in the manufacturing sector, partly spurred by inventory adjustments and strong demand for the "cash for clunkers" car-rebate program. ...The unemployment rate is still expected to rise to 9.9% by December, but economists forecast that the economy will shed far fewer jobs over the next 12 months than they had forecast last month."
- The consensus of the WSJ economists in the August survey called for **2.4% GDP growth in Q3 2009** (up from a consensus of 0.9% growth in the July survey), **2.1% in Q4 2009**, **2.4% in Q1 2010**, and **2.8% in Q2 2010**. According to the WSJ, "...the economists...put the chances at just 20% of a 'double-dip' second downturn before 2010."

Where to go for more information:

- The most recent BEA news release on GDP, including links to detailed data tables, is here. The BEA will release a revised estimate of Q2 GDP on August 27, 2009. Click here for more on the August *Wall Street Journal* economic survey.

PURCHASING MANAGERS INDEX (PMI)

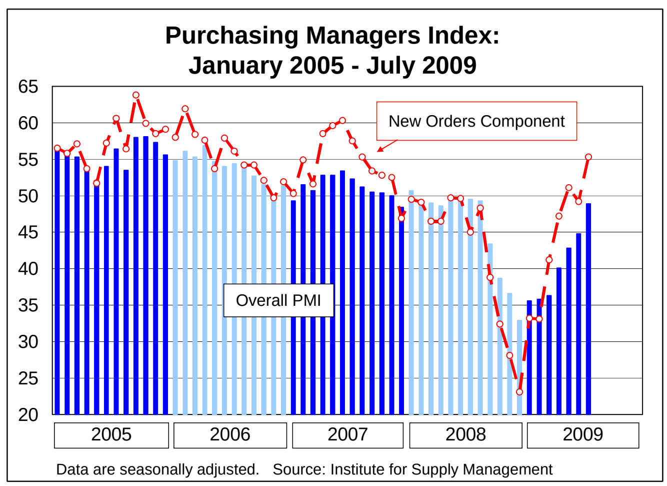
Who releases it and when?

- Institute for Supply Management (ISM – formerly the National Association of Purchasing Managers), near the beginning of each month.

What is it and why is it important?

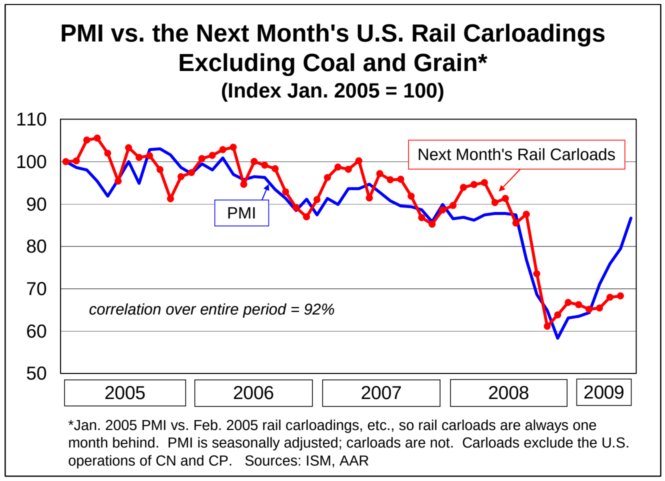
- The PMI is a compilation of data on new orders, inventory, production, supplier deliveries, and employment, based on a survey of several hundred supply managers at manufacturers throughout the United States. (Supply managers are typically in charge of purchasing/ procurement, inventory control and management, physical distribution and warehousing, and other key functions.) The PMI is considered a key indicator both of actual "on-the-ground" conditions as well as sentiment for what the near- to medium-term will hold.
- Manufacturing accounts for approximately 12% of U.S. GDP — not as much as it used to be, but the United States is still the world's top manufacturer. In fact, by itself, U.S. manufacturing would still be around the eighth largest economy in the world.
- According to ISM, a **PMI > 50** indicates that overall **manufacturing is expanding**; a **PMI < 50 indicates that manufacturing is contracting**. Also according to ISM, a PMI greater than 41.2, over a period of time, generally indicates an expansion of the overall economy.

What are the latest numbers?



- The **PMI in July 2009 was up to 48.9** from 44.8 in June — **the seventh straight monthly increase and the highest since August 2008.**
- The "new orders" component of the PMI **rose to 55.3 in July 2009** from 49.2 in June 2009. That's the **highest** it's been **since August 2007**.
- Of all the economic indicators tracked in this report, right now PMI might be the most optimistic – it's now about at the level it was for much of 2007 and 2008. As such, it might be accurately foretelling a brisk upcoming turnaround, or it might be an unreliable outlier signifying nothing.
- What the ISM said regarding the July data: "The ... more leading components of the PMI — the New Orders and Production Indexes — rose significantly above 50 percent, thus setting an expectation for future growth in the sector. ...Overall, it would be difficult to convince many manufacturers that we are on the brink of recovery, but the data suggests that we will see growth in the third quarter if the trends continue."
- Since January 2005, PMI has corresponded reasonably closely with the following month's rail carloads excluding coal and grain. (Due to seasonality issues such as harvests, the role of exports, and other factors, rail carloads of coal and grain are more volatile and less closely tied to

manufacturing than other commodity categories. And since PMI focuses on manufacturing, it makes sense to exclude coal and grain when comparing rail traffic to the PMI.) This close relationship has not always held in the past and may not hold in future. If it does continue to hold, rail carloads should swing more strongly upward to match the big recent increases in PMI.



Where to go for more information:

- The press release for the July PMI is here. The August PMI will be released on September 1, 2009.

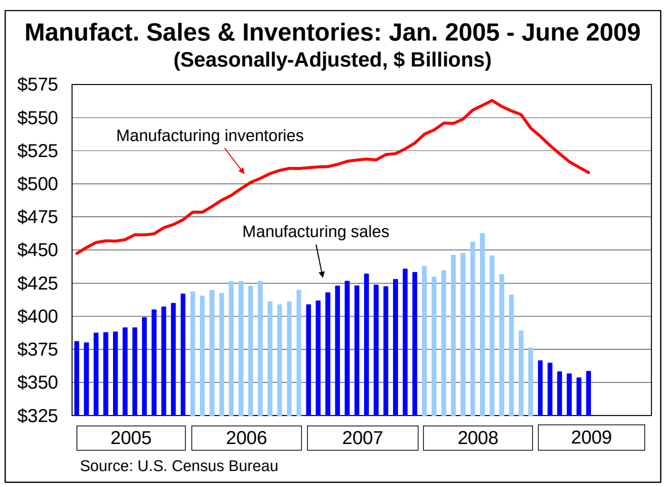
MANUFACTURING INVENTORIES AND SALES

Who releases it and when?

- The U.S. Census Bureau, near the beginning of each month, covering the month two months prior. (E.g., the report released in early August has data covering June.)

What is it and why is it important?

- The report is based on data reported from manufacturing establishments with $500 million or more in annual shipments. Units may be divisions of diversified large companies, large homogenous companies, or single-unit manufacturers in 89 industry categories. Figures are adjusted for seasonal and trading-day differences but not for price changes.
- Manufacturers **don't want to hold too much inventory** because it costs money to store it and it can become obsolete or spoil. Moreover, inventory earns no return on investment. But manufacturers **don't want too little inventory either**, or they could lose sales. Like Goldilocks, they want an inventory level that's "just right."
- When sales fall, inventories must rise if production is kept at the same pace. Eventually, when inventories are too high, "de-stocking" occurs via production cuts. This leads to job losses, fewer raw material purchases, and other negative economy-wide effects.
- Conversely, when sales rise, either inventories must fall, production must increase, or both. Eventually, inventories becomes too low and "re-stocking" occurs via production increases. This means more employment, more raw material purchases, and other positive economy-wide effects.



What are the latest numbers?

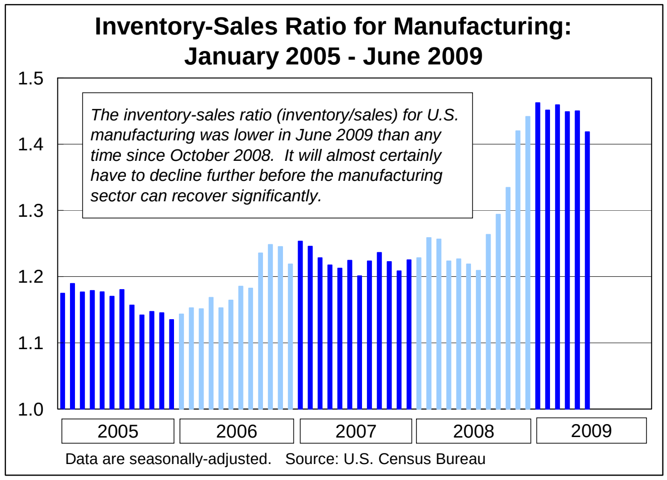
- Seasonally-adjusted **manufacturing sales rose 1.4%** in June 2009 from May 2009, but were still down 21% from June 2008. June 2009 was the first time since July 2008 that manufacturing sales rose.

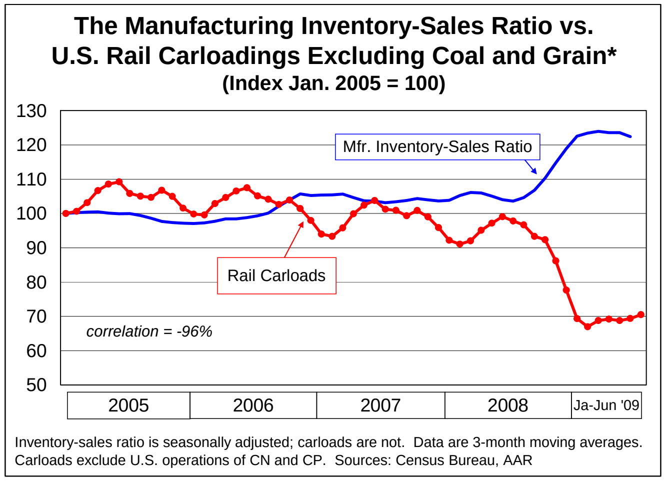
- Seasonally-adjusted **manufacturers' inventories fell 0.8%** in June 2009 from May 2009 and were down 8.5% from their year-earlier level (see chart on previous page). The last time inventories were this low was September 2006.

- With rising sales and falling inventories, the **inventory-to-sales ratio fell 2.2%** in June 2009 from May 2009 to 1.42. That's down from 1.46 in January 2009 and March 2009, but still a long way from recent norms (average of 1.22 in 2007, 1.19 in 2006, and 1.16 in 2005).

- Unless the inventory-to-sales ratio continues to fall to more normal levels, it is unlikely that inventory "re-stocking" will provide a significant boost to U.S. manufacturing.

- Since January 2005, there has been a very close negative correlation (*i.e.*, when one goes up, the other goes down) between the inventory-sales ratio for manufacturing and rail carloads excluding coal and grain (see chart at right). This inverse relationship has not always been as close as it is now and might not be as close in the future, but current data provide a great illustration of the "derived-demand" nature of freight railroading.





Where to go for more information:

- The Census Bureau's full report on manufacturing sales and inventories in June is here. Figures for July will be released on September 2.

INDEX OF INDUSTRIAL PRODUCTION

Who releases it and when?

- The U.S. Federal Reserve Board, around the middle of each month.

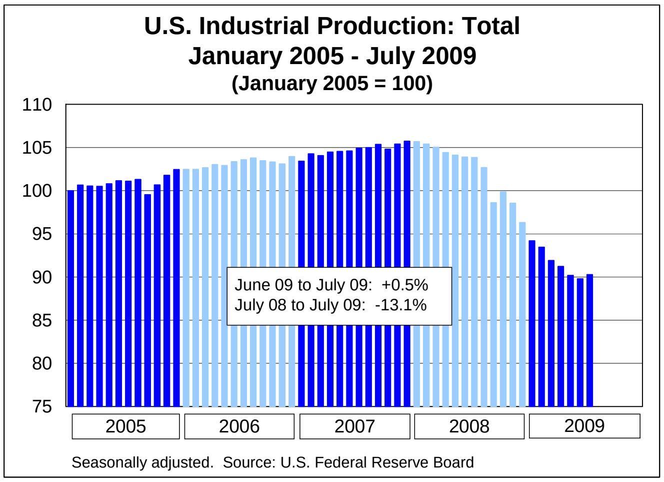
What is it and why is it important?

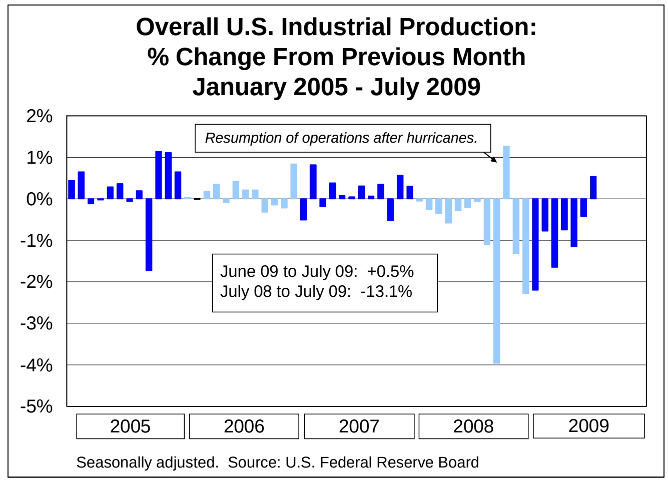
- Industrial production figures are based on the monthly raw volume of goods produced by U.S. industrial firms such as factories, mines, and electric utilities. Sector breakdowns are available.

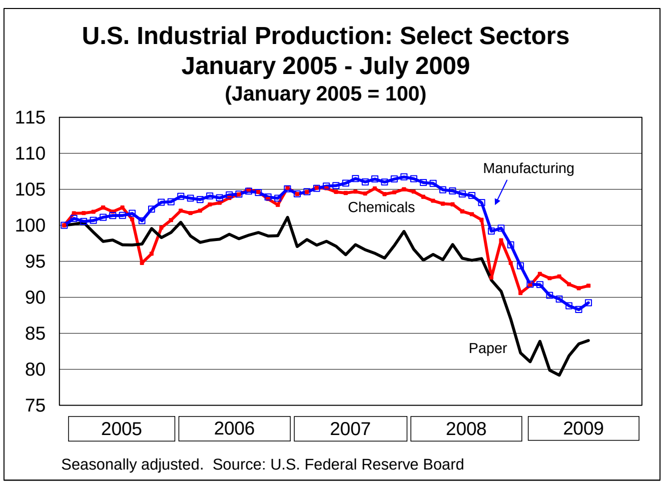
- The industrial sector generally exhibits the most volatility in terms of output during a business cycle. Large changes in industrial output can mean that a business cycle has reached an inflection point.

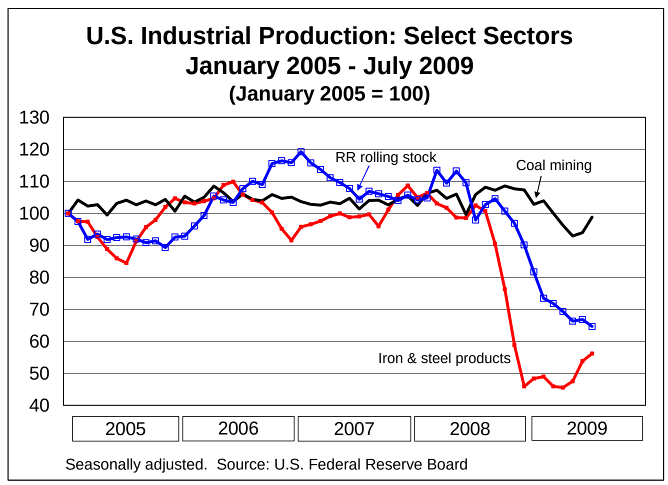
What are the latest numbers?

- Seasonally-adjusted **total industrial production rose 0.5% in July 2009** from June 2009, the first increase since December 2007.[1]
- Unfortunately, industrial production has fallen so much since the recession started that if industrial production grew the same 0.5% each month going forward, it would take about 2½ years just to get back to the level it was at in late 2007/early 2008.
- What the Federal Reserve said: "Manufacturing output advanced 1.0 percent in July; most of the increase was due to a jump in motor vehicle assemblies from an annual rate of 4.1 million units in June to 5.9 million units in July. Excluding motor vehicles and parts, manufacturing production edged up 0.2 percent. The output of utilities fell 2.4 percent, reflecting unseasonably mild temperatures in July, and the output of mines increased 0.8 percent."









Where to go for more information:

- The Federal Reserve release on industrial production in July is here. August data will be released on September 16, 2009.

[1] An increase in October 2008 doesn't really count because it was due largely to the resumption of industrial activity on the Gulf Coast following a couple of hurricanes.

CAPACITY UTILIZATION

Who releases it and when?

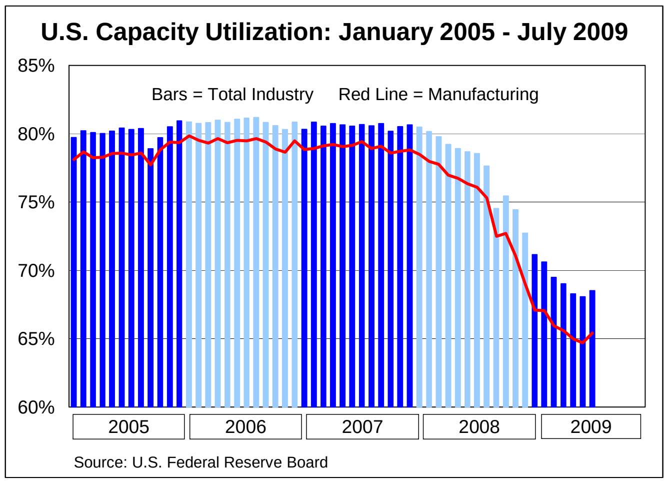
- The U.S. Federal Reserve Board, around the middle of each month.

What is it and why is it important?

- Capacity utilization attempts to capture the concept of sustainable maximum output — *i.e*., the highest output a plant can maintain assuming a realistic work schedule, normal downtime, and sufficient availability of inputs to operate the capital in place. The Fed provides capacity indexes for 87 industries (69 in manufacturing, 16 in mining, and 2 in utilities).
- In theory, a capacity utilization rate of, say, 70% means there is room to increase production up to 100% without having to build new plants or add equipment. In practice, capacity utilization rates (at least on an economy-wide basis) never come close to 100%. Utilization levels above 82%-85% are generally considered "tight" and forecast price increases or supply shortages in the near future. The farther below this level, the more slack there is in the economy.

What are the latest numbers?

- **Capacity utilization for total industry** (mining, manufacturing, and gas and electric utilities) **rose to 68.5% in July 2009, up 0.4%** from the 68.1% in June 2009. This was essentially the first increase since the recession began in December 2007.[2]
- Capacity utilization in June 2009 was the lowest ever recorded (the series began in 1967); July 2009, though an improvement from June, was still the third-lowest ever recorded.
- Capacity utilization for **manufacturing** was 65.4% in July 2009, up from 64.7% in June 2009 and also essentially the first increase since the recession began.



- The (slight) upturn in capacity utilization is another good economic sign — but it's fallen so far that even if it does mark a turnaround, it means that investments by firms in new capacity (the "I" in GDP, see page 13) could remain depressed for a long time to come. If total capacity utilization increased at the same rate in the future as it did in July (0.44%), it would take about three years for it to reach 80%, where it was in 2006 and 2007.

Where to go for more information:

- The Federal Reserve release on capacity utilization in July is here. August data will be released on September 16, 2009.

[2] Like industrial production, capacity utilization officially rose in October 2008, but that too was due largely to the resumption of industrial activity after hurricanes and thus doesn't really count either.

NUMBER OF EMPLOYED PERSONS AND UNEMPLOYMENT RATE

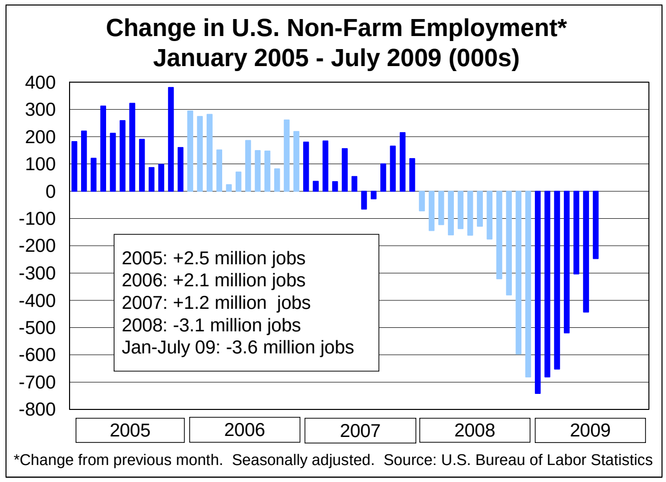
Who releases it and when?

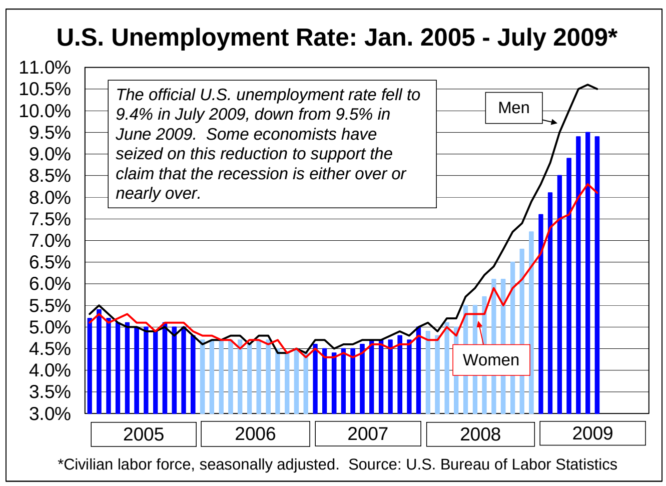
- U.S. Bureau of Labor Statistics (BLS) near the beginning of each month.

What is it and why is it important?

- The figures provide a snapshot of the strength of the U.S. labor market and are based on surveys of tens of thousands of households and businesses. In the United States, a gain of at least **150,000 or more jobs from one month to the next is generally considered solid job growth**. (Average monthly U.S. job growth from September 2003 through December 2007 was 159,000 jobs.) Anything less constitutes a weak job market.
- Weak job numbers cause even the still-employed to become less confident of the future, and, therefore, less prone to spend money (see “Consumer Confidence” and “Retail Sales” below).

What are the latest numbers?





- Net **non-farm employment fell by 247,000 in July 2009**, which (if not revised downward) would be the fewest job losses since August 2008.
- The U.S. **unemployment rate in July 2009 fell to 9.4% from 9.5% in June.**
- Employment has fallen each month since January 2008. In the 19 months from January 2008 through July 2009, the U.S. economy has **lost 6.7 million** net jobs.
- July’s employment numbers are a **major reason why some economists claim that the U.S. recession is now either over or nearly so.**[3]
- It seems somehow wrong to say that the loss of a quarter million jobs is good news, but compared to the previous six months, it is. The trend toward fewer job losses since January 2009 is clear (see chart upper right). Still, given the lack of unambiguously good economic news (as opposed to “less bad” economic news), declaring an end to the recession based in large part on the July employment situation may be premature.
- Indeed, despite July’s slight reduction in the unemployment rate to 9.4%, it is widely expected that the U.S. unemployment rate will rise further. For example, the same group of economists in the August *Wall Street Journal* survey (see page 13) who declared that the

[3] The National Bureau of Economic Research (NBER), a private economic research organization, officially determines when a U.S. recession starts and ends. A recession begins just after the economy peaks and ends when it bottoms out. Because the peak and trough can only be determined after the fact — often many months after the fact — it is often unclear if an economy is in a recession (at the end of a growth cycle) or has come out of one (starting a new growth cycle).

recession is now over still predict that the unemployment rate will rise to 9.9% by December 2009 before falling to 9.4% by December 2010.

Where to go for more information:

- The BLS press release on the employment situation in July 2009 is here. Data for August 2009 will be released on September 4, 2009.

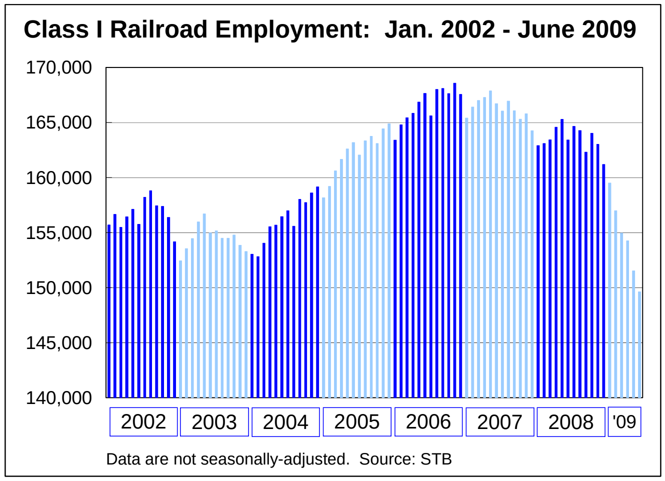
CLASS I RAILROAD EMPLOYMENT

Who releases it and when?

- Surface Transportation Board (STB), around the middle of the month.

What is it and why is it important?

- Report showing the average number of Class I employees at mid-month. As in other industries, employment in the rail industry is a function of the level of business — *i.e.*, how much freight is being hauled.



What are the latest numbers?

- Class I railroad employment **fell to 149,614 in June 2009, down 1,922 from May 2009** and down almost 19,000 employees from the recent peak of 168,582 in November 2006.

Where to go for more information:

- The STB web site for employment data is here.

INDEX OF CONSUMER CONFIDENCE

Who releases it and when?

- The Conference Board, last Tuesday of the month.

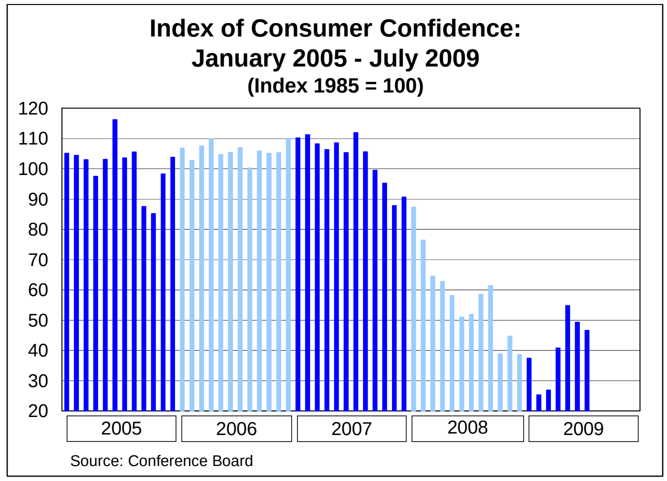
What is it and why is it important?

- An index based on a monthly survey of 5,000 U.S. households designed to gauge the financial health, spending power, and confidence of the average consumer. Respondents are asked about current conditions and their expectations for the next six months.
- The index is used mainly to predict future consumer spending, on the theory that **consumers who are confident** about their job prospects, income, etc. **are more likely to make purchases** (especially big-ticket purchases) **than pessimistic consumers**.

What are the latest numbers?

- On July 28, the Conference Board reported that the consumer confidence index **fell in July 2009 to 46.6 from 49.3 in June**, **the second straight decline** following increases from February to May (see chart next page).
- What the Conference Board said on July 28: “Consumer confidence, which had rebounded strongly in late spring, has faded in the last two months. The decline in the Present Situation

Index was caused primarily by a worsening job market ... . [M]ore consumers are pessimistic about their income expectations, which does not bode well for spending in the months ahead. … Overall, consumers remain quite pessimistic about the short-term outlook. The percent of consumers anticipating an improvement in business conditions over the next six months decreased to 18.0 percent from 20.9 percent, however, those expecting conditions to worsen decreased to 18.9 percent from 20.4 percent."



Where to go for more information:

- The Conference Board's press release on the consumer confidence index in July 2009 is here.

RETAIL SALES

Who releases it and when?

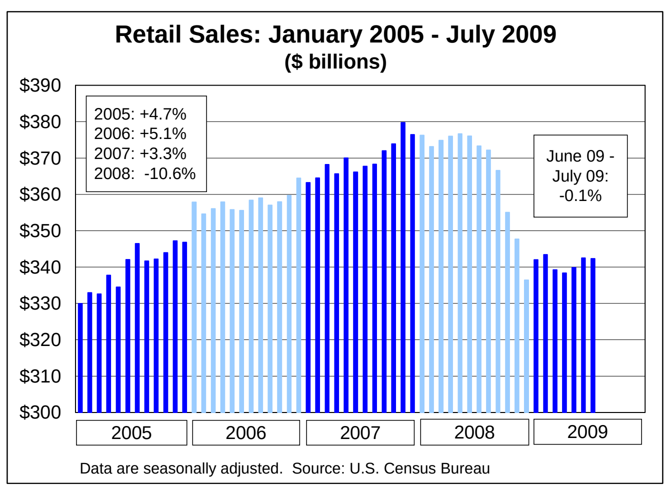
- The U.S. Census Bureau, around the ninth business day of each month.

What is it and why is it important?

- Uses a monthly survey of 5,000 retailers of all types to track the dollar value of physical merchandise sold. The data are adjusted for holiday differences and seasonal variations, but are subject to sometimes-large revisions and are not adjusted for inflation.
- Personal consumption accounts for approximately 70% of U.S. GDP (see chart on page 13). Thus, the health of the economy depends largely on how much "stuff" people buy.
- It often takes time for consumers to recover from and respond to economic events. Thus, an increase in spending today may reflect the results of an economy that began to recover a few months earlier. A decrease in spending today may confirm an ongoing or worsening recession.

What are the latest numbers?

- Total **retail sales were down 0.1% in July 2009 from June 2009**. The decline caught many analysts by surprise, but is consistent with falling consumer confidence in July (see previous section) and better-but-still-poor employment numbers (see page 19).
- It's worth highlighting again that personal consumption contributes about 70% of GDP. That's why continued weakness in retail sales highlights one of the major threats to economic recovery. Without vibrant consumer spending, it will be difficult for the economy to consistently improve.



- **Retail sales in July 2009 were 8.3% lower than July 2008**. The table at right details the decline in retail sales year-to-date in 2009 vs. year-to-date in 2008 by type of retail business. Note the huge fall off in sales of housing- and auto-related products.
- The federal "cash for clunkers" program launched on July 24. Sales at auto dealers rose by $3.2 billion (5.9%) in July 2009 from June 2009, no doubt aided by the program.
- As noted in last month's Rail Time Indicators, higher personal savings rates continue to affect retail sales. According to the Bureau of Economic Analysis, U.S. **personal saving** as a percentage of personal disposable income **was 5.2% in Q2 2009,** up from **less than 1%** for most of the past few years. Americans have long been criticized by policymakers and others for saving too little. Now, when they are actually saving, they're criticized by some for not spending enough.

% Change in U.S. Retail Sales by Type
Jan.-July 2009 vs. Jan.-July 2008

Type of Business	% change
Total	-9.5%
Health & personal care	3.3%
Food service & drinking places	1.6%
Food & beverages	0.2%
General merchandise	-1.2%
Sporting goods, books, music	-2.8%
Nonstore retailers	-5.0%
Clothing	-6.9%
Electronics & appliances	-9.7%
Building materials, gardening	-11.8%
Furniture & home stores	-13.6%
Motor vehicles & parts	-18.9%
Gasoline stations	-33.2%

Source: Census Bureau

Where to go for more information:

- The Census Bureau's press release on July retail sales is here. August retail sales will be released September 15, 2009.

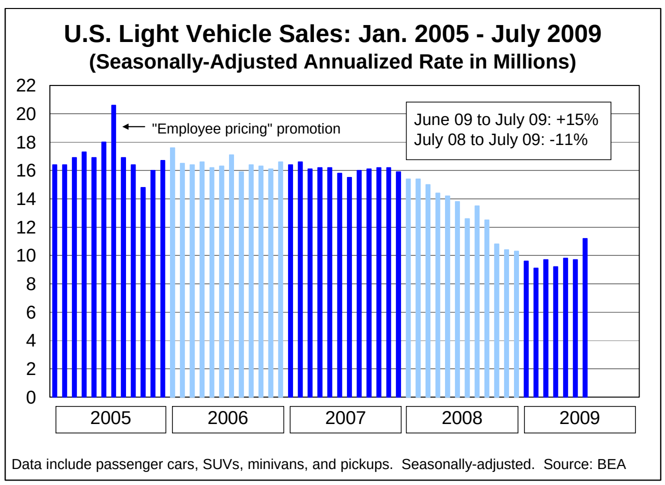
LIGHT VEHICLE SALES

Who releases it and when?

- The U.S. Bureau of Economic Analysis.

What is it and why is it important?

- Covers U.S. sales of cars and light trucks, including pickups and SUVs. Over the past 50 years, spending on motor vehicles has accounted, on average, for about 3.7% of U.S. GDP.
- In 2008, 6% of Class I rail revenue came from hauling autos and parts.



What are the latest numbers?

- **U.S. light vehicle sales in July 2009 rose 15%** from June 2009 to a seasonally-adjusted annualized selling rate (SAAR) of 11.2 million. The beginning of the federal "cash for clunkers" program on July 24 no doubt helped boost auto sales for the month. It remains to be seen how sustained the uptick in auto sales will be.
- Rail carloads of autos and auto parts are closely correlated with motor vehicle sales, though there was no uptick in rail carloads of autos and auto parts in July 2009 corresponding to the increase in auto sales — probably because the "cash for clunkers" stimulus began very late in the month and because existing inventory was sufficient to handle much of the immediate increase in sales.

Where to go for more information:

- BEA data on auto sales are here.

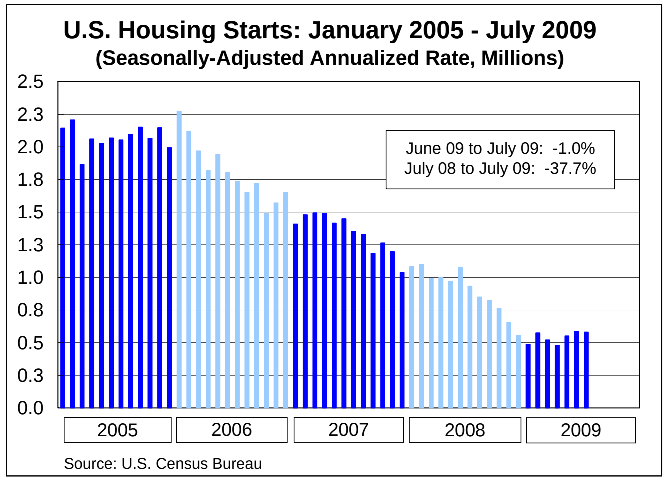
HOUSING STARTS

Who releases it and when?

- Census Bureau, around the middle of each month.

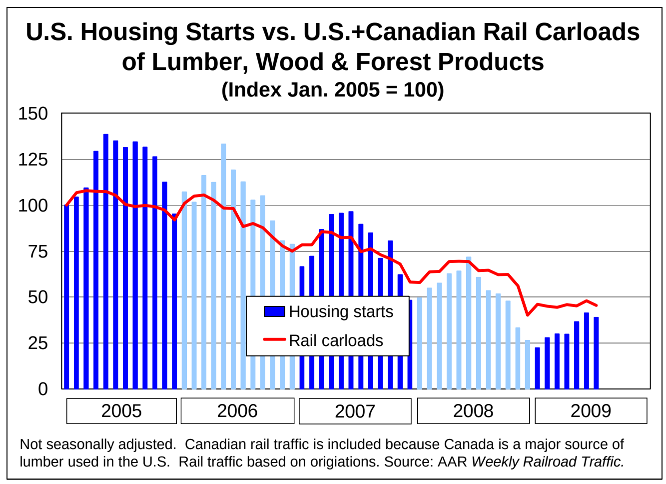
What is it and why is it important?

- A housing start is **beginning the foundation** of a **residential** home.
- Housing directly accounts for around 5% of the overall economy and has large spillover effects on other sectors, such as retail sales and manufacturing, since people buying new homes tend to spend on other goods such as furniture, lawn and garden supplies, and appliances.
- Housing starts are a "leading indicator" — construction growth usually picks up at the beginning of a business cycle.



What are the latest numbers?

- Seasonally-adjusted housing starts in July 2009 **were down 1.0% to 581,000** from June on an annualized basis. July 2009's housing starts were down 38% from July 2008. July's decrease follows two months of slight increases.
- Rail carloads of lumber, wood, and forest products closely track housing starts. From January 2005 to July 2009, housing starts (not seasonally adjusted) fell 61%, while U.S. and Canadian rail carloads of lumber and wood fell 55%. (Canada is the source of much of the lumber used in the United States.)



Where to go for more information:

- The Census Bureau's press release on housings starts in July is here. August's housing starts will be released on September 17, 2009.

CONSUMER PRICE INDEX (CPI)

Who releases it and when?

- U.S. Bureau of Labor Statistics (BLS), mid-month.

What is it and why is it important?

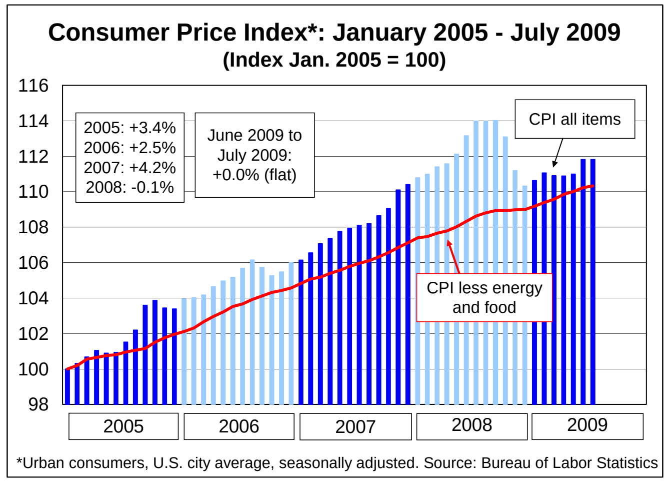
- The CPI is the benchmark inflation guide for the U.S. economy, measuring the changes in the cost of a representative basket of consumer goods and services. Prices are collected in 87 urban areas throughout the country and from about 23,000 retail and service establishments.
- The "CPI for All Urban Consumers" (CPI-U) is the inflation index most often reported by the media, although BLS publishes hundreds of CPI indexes each month. The "core" CPI — defined

as CPI less food and energy — is also commonly used. Food and energy prices are typically more volatile than other prices due to their susceptibility to external shocks (*e.g.*, oil price fluctuations).

- Among other uses, the CPI is the basis for cost-of-living adjustments for Social Security, federal retirement payments, many private pensions, and food stamps.

What are the latest numbers?

- **In July 2009, CPI-U was basically unchanged** on a seasonally-adjusted basis **compared with June 2009, but down 1.9%** on a **year-over-year** basis, due in part to sharply lower energy costs.
- On an unadjusted basis, CPI-U was up 0.2% in July 2009 compared with June 2009 and down 2.1% from July 2008.
- What BLS said: "On a seasonally adjusted basis, the CPI-U was unchanged in July following a 0.7 percent increase in June. Small declines in the food and energy indexes offset a small increase in the index for all items less food and energy. ... The food index declined 0.3 percent in July. The energy index, which rose 7.4 percent in June, fell 0.4 percent in July. Decreases in the indexes for gasoline, fuel oil, and electricity more than offset an increase in the index for natural gas."



Where to go for more information:

- The BLS press release on the July CPI is here. August's CPI will be released on September 16.

RAILROAD COST INDEXES

Who releases it and when?

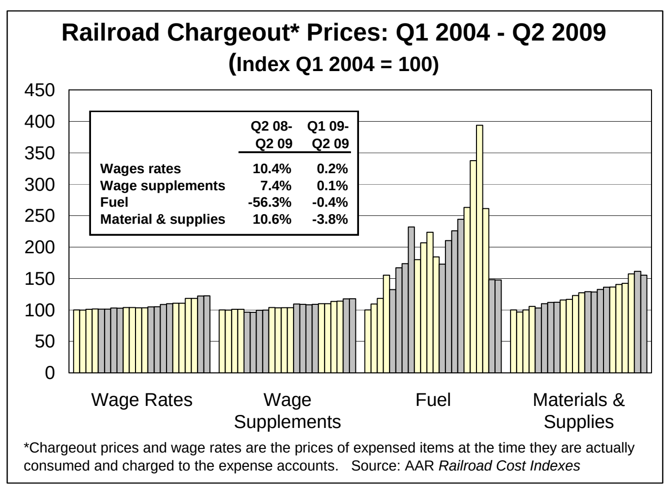
- The Association of American Railroads (AAR), quarterly.

What is it and why is it important?

- It details changes in the price level of inputs to freight railroad operations.

What are the latest numbers?

- From Q2 2008 to Q2 2009, railroad wage prices rose 10.4%; wage supplements (*i.e.*, fringe benefits) rose 7.4%; fuel fell 56.3%; and the price of materials and supplies in aggregate rose 10.6%. From Q1 2009 to Q2 2009, railroad wage prices rose 0.2%; wage supplements rose 0.1%; fuel fell 0.4%; and the price of materials and supplies in aggregate fell 3.8%.



Where to go for more information:

- See the AAR web site here or contact Clyde Crimmel at 202-639-2309. The next quarterly release will be near the end of September 2009.

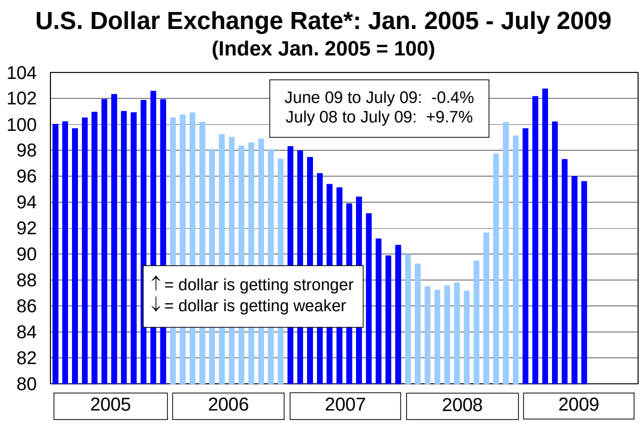
U.S. DOLLAR EXCHANGE RATE

Who releases it and when?

- The Federal Reserve Board, daily.

What is it and why is it important?

- An index comprised of a weighted average of the value of the U.S. dollar against the currencies of a group of major U.S. trading partners.
- An exchange rate is the **price of one currency against another.** A **weaker U.S. dollar** ("depreciation") **means that U.S. imports become relatively more expensive and U.S. exports become relatively less expensive abroad.**[4] All else equal, that means fewer U.S. imports and more U.S. exports. U.S. exports of coal and grain rose substantially in 2007 and 2008, due in part to a lower-valued dollar that made these exports less expensive in global markets.
- Conversely, **a stronger dollar** ("appreciation") **means U.S. imports become relatively cheaper and U.S. exports become more expensive**. All else equal, that means more U.S. imports and fewer U.S. exports.



*Weighted average of the foreign exchange value of the U.S. dollar against the currencies of a broad group of major U.S. trading partners. Source: Federal Reserve Board

What are the latest numbers?

- The U.S. dollar had been strengthening from mid-2008 through March 2009 but has been weakening since. It **fell 0.4%** in July 2009 from June 2009 and is now **down 7.0%** from March 2009.

Where to go for more information:

- Information from the Federal Reserve on exchange rates is here.

DOW JONES ECONOMIC SENTIMENT INDICATOR (ESI)

Who releases it and when?

- Dow Jones, on the last business day of the month.

What is it and why is it important?

- The ESI was unveiled on April 30, 2009, so its long-term usefulness is not yet known. But, it's an interesting concept, which is why it's included here.
- According to Dow Jones, the ESI "aims to predict the health of the U.S. economy by analyzing the coverage of 15 major daily newspapers in the U.S. It uses a numerical scale from 0 to 100 to express the balance of sentiment in articles about the economy. ...The ESI's back-testing to 1990 ...suggests the indicator can help predict economic turning points as much as seven months in advance of other indicators."

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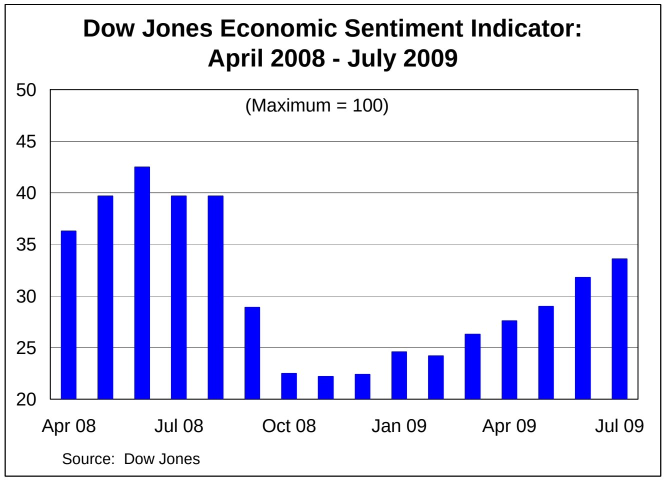
[4] For example, suppose a U.S. coal mine wants to export a $50 ton of coal to Germany. At $1.50 per euro, the coal costs 33 euros ($50/1.5) in Germany. If the dollar gets stronger so that one euro falls to $1.20, the cost of the coal rises to 42 euros ($50/1.2). If the dollar gets weaker so that one euro is, say, $1.80, the coal falls to 28 euros ($50/1.8).

What are the latest numbers?

- The ESI for July 2009 was 33.6, up from 31.8 in June and the fifth straight monthly increase.
- According to Dow Jones, "The steady improvement trend in the ESI suggests the U.S. economy will be out of recession in the fourth quarter of this year, but it's not quite there yet and remains at risk of a relapse."

Where to go for more information:

- Information on the Dow Jones ESI is here. The August ESI will be released on August 31, 2009.



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