

Rail Volumes Point to a Firmer Economic Backdrop

Last month, we noted it was not hard to find economic indicators pointing to slower growth. Many of those concerns remain, especially in the labor market: net new jobs fell by 92,000 in February, and the unemployment rate rose to 4.4%. But this month's data also offers a more encouraging counterpoint. Recent readings on rail volumes, inflation, and manufacturing suggest the economy may still be on track for a soft landing, with inflation easing toward target without a significant slowdown in economic growth.

Significant uncertainty remains. But for railroads, the latest data points to a more supportive backdrop for freight demand in the months ahead.

Carload and Intermodal Gains

U.S. freight railroads started 2026 strong despite severe weather in some areas. Total U.S. carloads averaged 224,737 per week in February 2026, the most for February since 2019 and up 6.5% over February 2025. Carloads for the first two months of 2026 totaled 1.76 million, up 5.5% (92,000 carloads) over last year.

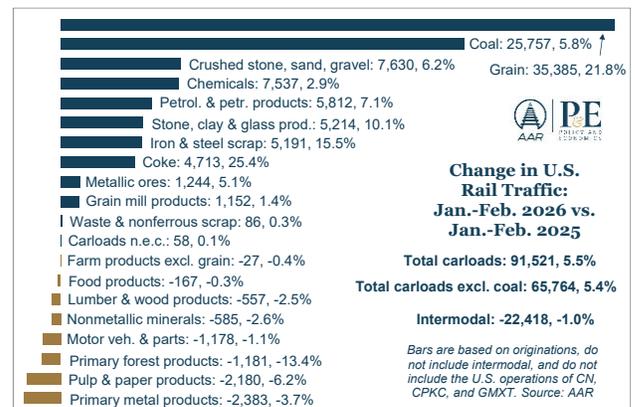
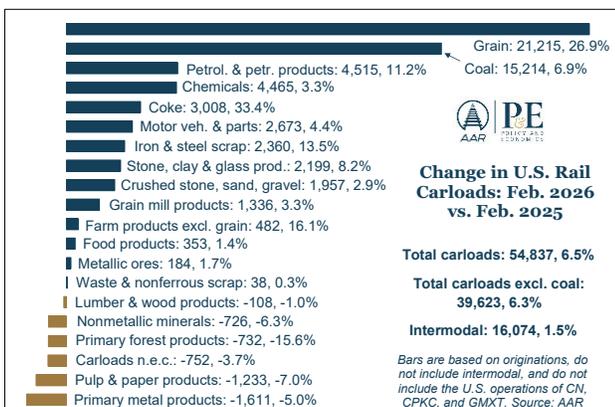
In February 2026, 14 of the 20 major carload categories saw year-over-year gains, led by grain, coal, chemicals, and petroleum products. Broad-based gains across carload categories suggest industrial activity and goods movement demand are firming. That matters because many carload sectors tend to move closely with underlying real-economy activity, making rail volumes a clear real-time signal of changing freight demand.

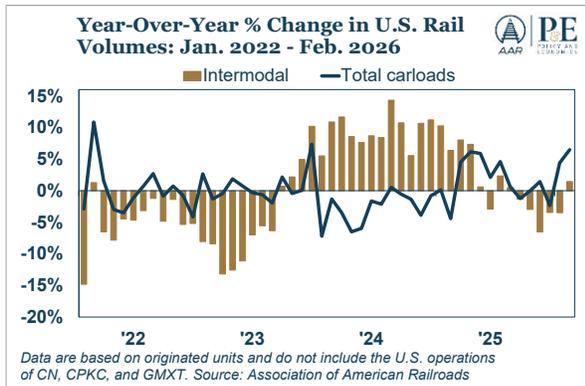
U.S. rail intermodal shipments averaged 280,687 units per week in February, the most ever for February and up 1.5% over last year. It was the first year-over-year gain for intermodal in six months. For the first two months of 2026, intermodal volume totaled 2.19 million containers and trailers, down 1.0% from last year but still the second-highest total ever for the first two months of a year. The combination of modest year-over-year softness and still-elevated absolute volume suggests underlying goods demand has cooled but not collapsed.

Key Takeaways

- **Carload Strength.** February U.S. carloads rose 6.5% year-over-year, with gains led by grain, coal, and other industrial products. Year-to-date carloads were the highest since 2023.
- **Intermodal Rebound.** U.S. rail intermodal volume rose 1.5% in February, with weekly average volume reaching a record high for the month.
- **Manufacturing Turnaround?** The Manufacturing PMI® was above 50% for the second consecutive month, while manufacturing output in January reached its highest level since October 2022, suggesting a possible inflection point in industrial activity.
- **Unsettled Labor Market.** Net job growth fell by 92,000 in February, and the unemployment rate inched higher. Layoffs remain relatively low, suggesting employers are still reluctant to shed workers.

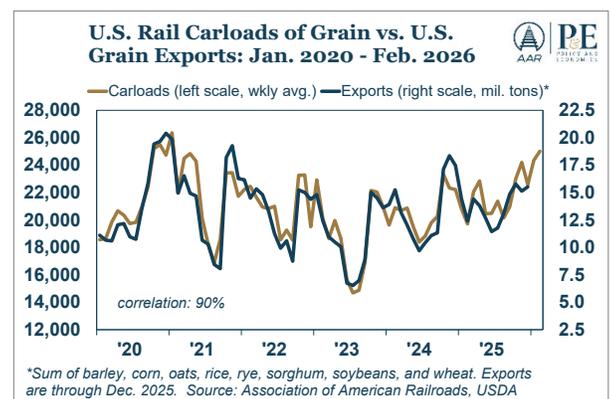
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Key Rail Commodities

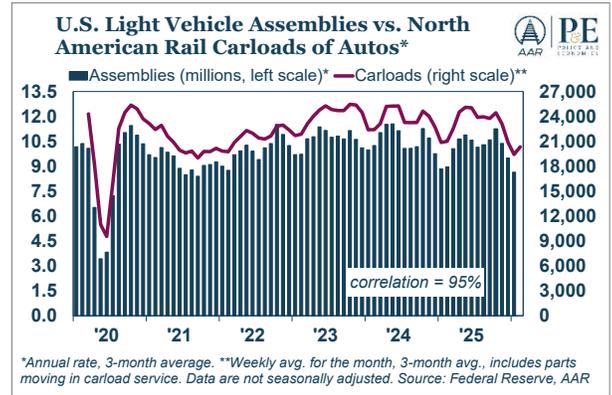
- Freight Rail Index:** The AAR Freight Rail Index (FRI) tracks seasonally adjusted intermodal shipments and carloads excluding coal and grain, which together capture the rail traffic segments most sensitive to shifts in the broader economy. The index rose 1.8% in February over January, its third month-to-month increase in the past four months.
- Coal:** In February 2026, coal carloads were up 6.9% over February 2025. Carloads averaged 58,659 per week in February, the most since September 2025. Carloads for the first two months of 2026 were up 5.8%, or nearly 26,000 carloads, over last year. So far in 2026, coal accounts for 26.6% of non-intermodal rail volume, well ahead of chemicals (15.3%) and grain (11.2%). Rail coal shipments have been supported by a combination of cold weather, firmer natural gas prices, and elevated electricity demand. Together, those factors have improved coal burn economics and helped lift rail coal volumes early in the year.
- Carloads Excluding Coal:** U.S. carloads excluding coal rose 6.3% in February, their strongest year-over-year percentage gain in more than two years. Carloads excluding coal have seen year-over-year increases in 22 of the past 25 months, showing that freight demand outside coal has remained more resilient than many headline indicators might suggest. For the year to date through February, carloads were up 5.4% and, at 1.29 million, were the most since 2015.
- Grain:** U.S. grain carloads averaged 25,018 per week in February 2026, the highest weekly average for February since 1990 and the highest for any month since January 2021. For the first two months of 2026, grain carloads were up 21.8% over last year and were the most since 1990 (when a typical grain car held much less grain than today). Most variation in grain carloads reflects changes in export demand, and grain exports have been strengthening. The USDA recently projected that U.S. corn exports will set a record this year. Because corn accounts for roughly half of U.S. grain carloads, that export strength is translating directly into stronger rail volume.



- Chemicals:** U.S. rail carloads of chemicals entered 2026 with solid momentum, building on a record-setting performance in 2025. In February, chemical carloads rose 3.3% over last year. Average weekly chemical carloads in February were 34,606, the most ever for any month. In the first two months of 2026, chemical carloads totaled more than 269,000, up 2.9% over last year and a record for the first two months of a year. Looking ahead, geopolitical tensions in the Middle East bear watching because they could put upward pressure on natural gas prices. A sustained rise would weigh on the competitiveness of energy-

intensive U.S. chemical production, which could eventually soften chemical carloads even as higher natural gas prices support coal demand.

- Motor Vehicles & Parts:** North American rail carloads of motor vehicles rose 3.1% in February, their first year-over-year gain in six months, and weekly average carloads reached their highest level in five months. Still, the outlook remains mixed. The National Automobile Dealers Association recently forecast new vehicle sales at 16.0 million in 2026, down from 16.2 million in 2025. Affordability pressures remain significant, with higher sticker prices and elevated monthly payments continuing to sideline many buyers. At the same time, labor market uncertainty and policy-related volatility are complicating both production planning and consumer demand. Motor vehicles account for roughly 8% of U.S. rail revenue.

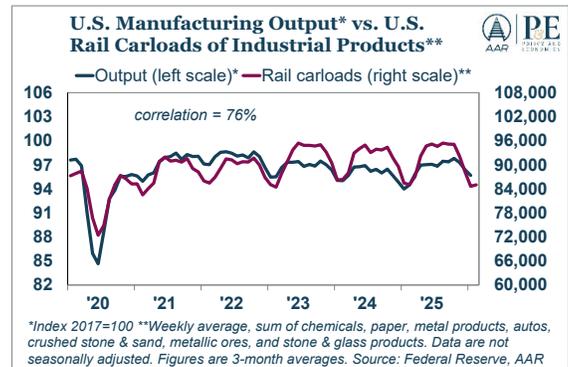
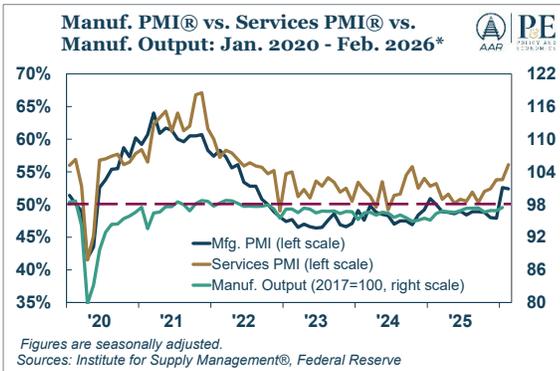


- A Decline in Railcars in Storage:** The number of railcars in storage fell by nearly 18,000 in February, their first decline in six months, and every major railcar category saw fewer idled cars. If that trend continues, it would suggest freight demand is strengthening enough for railroads and other railcar owners to bring equipment back into service in a more meaningful way.

Some Encouraging Economic News

- Green Shoots for Manufacturing?** Economists use the phrase “green shoots” to describe early signs that activity may be improving after a prolonged soft patch. Manufacturing may be starting to show a few green shoots. The ISM Manufacturing PMI® was 52.4% in February, its second straight month above the 50% threshold that separates expansion from contraction. In the 38 months through December 2025, the index was above 50% only once, making this recent move notable.

The underlying details were encouraging as well. The new orders index reached 55.8%, while the backlog of orders index rose to 56.6%, its highest level since mid-2022. These measures do not guarantee a durable rebound, but they do suggest that manufacturing may be regaining enough traction to matter again for freight demand. According to preliminary Federal Reserve data, U.S. manufacturing output in January was the highest since October 2022. Combined with the PMI data, that points to an industrial sector that may finally be stabilizing after a long period of weakness, a development that would be especially important for railroads.

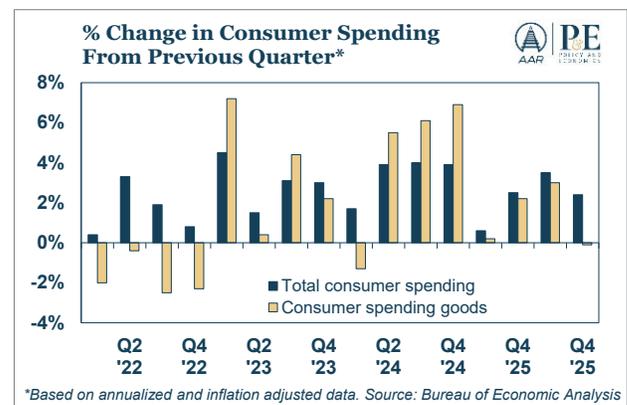
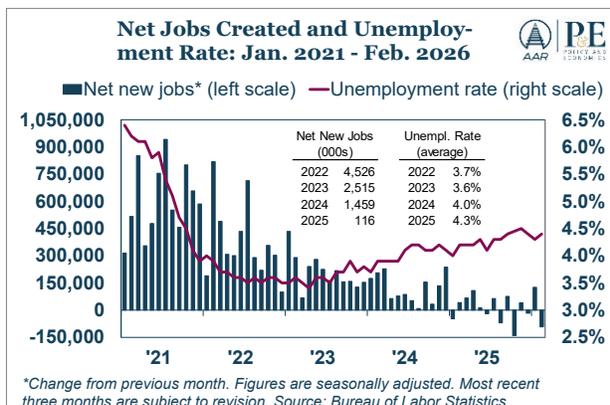


- Strength in Services:** The ISM’s Services PMI® has trended higher over the past six months and reached 56.1% in February, its highest reading since July 2022. New orders rose to 58.6%, up more than 5 percentage points from January and the strongest since September 2024, while the backlog index moved above 50% for the first time in a year.

For railroads, stronger service activity matters less directly than manufacturing, but it still supports the broader freight environment by reinforcing employment, income growth, and consumer demand. To the extent service-sector resilience helps keep household spending intact, it can provide ongoing support for intermodal and other consumer-linked traffic.

- Interest Rate Stability, Moderating Inflation:** The Federal Reserve next meets on March 17-18 and is widely expected to leave the federal funds rate unchanged at 3.5%–3.75%, where it has been since mid-December. Policymakers appear to want more time to assess incoming data; they remain divided over whether inflation or labor market weakness poses the greater risk. Recent inflation readings provide some clarity. Consumer prices rose 2.4% in January from a year earlier, the smallest increase in eight months. Core CPI, excluding food and energy, rose 2.5%, its slowest pace since March 2021. These trends suggest inflation continues to move gradually toward the Fed’s 2% target. For railroads and their customers, steadier inflation and a patient Federal Reserve help reduce uncertainty around borrowing costs and capital planning while supporting a more stable freight demand environment.
- Ongoing Instability in Labor Market Conditions:** The labor market has clearly softened. Job creation has slowed significantly, and the unemployment rate has been trending higher. In February, net new jobs fell by a preliminary 92,000 after a revised gain of 126,000 in January and a decline of 17,000 in December. In fact, job growth has alternated between gains and losses for 10 consecutive months, highlighting unusually unsettled labor demand.

The unemployment rate rose to 4.4% in February, near a five-year high. Even so, layoffs remain relatively contained: initial unemployment claims averaged 211,000 per week in January and 216,000 per week in February, both low by historical standards. Inflation-adjusted wage growth also remains positive, which should continue to support consumer spending for now.



- Resilient Consumer Spending:** Because of the government shutdown, January consumer spending data are delayed until March 13. The broader point, though, remains unchanged: in recent years, consumer spending has been the main engine of GDP growth. The chart above highlights quarter-to-quarter changes in total spending and spending on goods. If spending begins to contract, the broader economy will feel it quickly. For railroads, reduced spending on goods would likely show up first in intermodal volumes.

Room For Cautious Optimism?

The next few months should provide a clearer test of whether the recent improvement in freight volumes and the scattered signs of macro stabilization can build into something more durable. Manufacturing appears to be regaining some footing, service-sector activity remains firm, and consumer spending has not yet broken. If those conditions hold, the backdrop for rail traffic should improve further.

The labor market remains the key swing factor. For now, however, the balance of recent data suggests the freight economy may be on somewhat firmer ground than seemed likely just a month ago.