

## A qualified QED: 65,000 deliveries in '07

**W**hen my partner David Burns and I founded Rail Theory Forecasts L.L.C. (RTF) in 2001, we bench-tested our statistical models, which took months to develop, with historical data. We then field-tested the models for two years before publishing our first rail-car predictions in 2003.

The tests indicated that the models were dead-on accurate, and we had expected to mimic Caesar and proclaim "Veni, Vidi, Vici!" in year-end reviews of our results. Instead, each December we have had to whisper "Mea culpa, mea culpa" as we explained why we missed our targets.

Until this year, the projections were only 10 percent off the mark; but our 2006 forecast of 63,500 cars now appears to be 20 percent off the expected 76,500 deliveries. What happened? We had no data on ethanol and this relatively new commodity was the source of most of our errors.

Having learned a new lesson about the dynamics of the rail-car market, we press on. With our revised models, we forecast that new rail-car deliveries in 2007 will total 65,000 cars.

### HARDLY IN THE TANK

*Tank-car orders* (30,000 in 2006's first three quarters alone) will set a record in 2006, as will the expected 14,000 deliveries. (RTF forecasted 10,000.) All of these gains can be attributed to the rise of ethanol. For 2007, we project that 18,500 cars will be delivered, but this is more of a guess (as of Oct. 31), since questions remain about tank-car builders' capacity.

Deliveries of *covered hopper cars* should continue at the pace set in 2006. RTF is forecasting that small, large and jumbo deliveries should total 4,000, 8,000 and 9,000 cars, respectively, in 2007. The demand for cement is booming, and deliveries of *small-cube covered hopper cars* should hover around

6,000 by year-end 2006. (RTF predicted 5,000.)

Deliveries of *large grain covered hoppers* should reach almost 8,500 this year (RTF forecasted 4,500 cars), another result of the growth of the ethanol industry. *Jumbo covered hoppers suitable for plastic pellets and dried distillers grains* — the byproduct of ethanol plants — should total almost 6,000 cars. (RTF predicted 5,500.)

Orders for new coal cars all but disappeared this year as deliveries were on a record-setting pace; RTF expects *OT hoppers and GT gondola deliveries* to reach 12,900 and 11,500, respectively. (We forecasted 10,000 and 11,000.)

Coal traffic is up 4.5 percent through October; but too many cars were

mixed-signal picture for 2007.

Deliveries of *mill gondola cars* should top 3,000 in 2006. (RTF forecasted 1,500.) If the economy remains strong, 2,000 more cars should be delivered in 2007. But orders for *box cars and non-intermodal flat cars* make even the demand for coal cars look strong.

### A GRAIL-ISH GOAL

In 2007, box car deliveries might fall close to zero vs. 2,000 cars in 2006. (RTF predicted 2,500.) They are just too expensive to buy or lease for the freight revenue they earn.

The market for flat cars (2006 deliveries of 3,100 vs. the RTF forecast of 3,500) dropped off when housing starts declined and will not return until home



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ordered for 2006, and the companies that build and supply these cars will pay the price in 2007.

We believe only 7,000 OT hoppers and 5,000 GT gondola cars will be delivered in 2007, and even these numbers may be too high if orders don't rise in the fourth quarter. After 2007, thousands of new coal cars will be needed to supply 15 giga-watts of new coal-fired power coming online in 2009.

Meanwhile, we expect deliveries of *intermodal cars* to improve slightly in 2007 to 10,000 cars, although the current backlog suggests that next year's deliveries will be less than the 10,000 cars RTF forecasted for this year. Although intermodal traffic is up more than 6.5 percent through October, the economic factors that drive this business paint a

construction picks up. We project deliveries of 1,500 cars for 2007.

The quest for the perfect forecast may be like the search for the Holy Grail; nevertheless, we labor on. Mathematicians have a habit of abbreviating "Quod Est Demonstratum!" (QED) once they've solved a problem. Although we believe that we are on the right track, it looks like it will be a few years before we can sign-off with "QED." ■

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