



Rail Industry Overview

Inflection Point or Just a Bump in the Road?

Recently released economic data point to mounting headwinds. Preliminary U.S. job growth in July was just 73,000—well below expectations—while revisions erased most previously reported job gains in May and June. Add to that a services sector teetering on the edge of contraction, consumer spending that’s losing momentum, weak consumer confidence, inflation that’s creeping higher, and a manufacturing sector that remains stagnant, and the economic picture looks hazy.

Nevertheless, rail volumes are holding up, indicating goods movement remains resilient despite the headwinds. Looking ahead, though, sustained pressure on labor markets and consumer demand could eventually weigh on freight activity.

Intermodal Growth Returns

U.S. rail **intermodal** shipments rebounded in July, rising 2.4% over last year and reversing a 2.9% decline in June (intermodal’s first year-over-year decline in 22 months). In July 2025, intermodal originations averaged 270,175 units per week, the second most ever for July (behind July 2018).

For the year to date through July, U.S. intermodal volume was 8.33 million units, up 4.7% (371,000 units) over last year and the third most ever (behind 2018 and 2021).

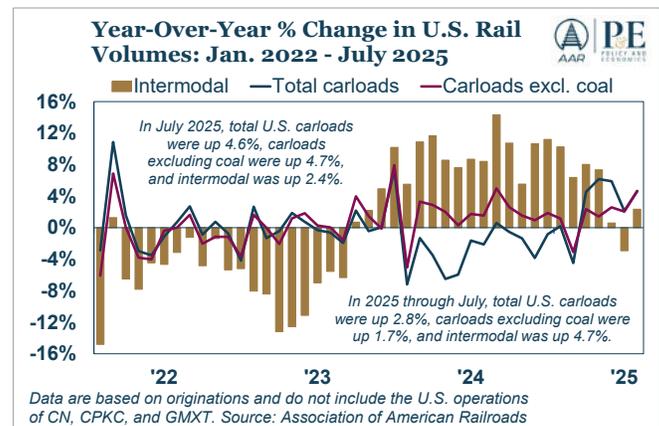
Several factors likely contributed to intermodal’s dip in June and recovery in July. A drawdown in business inventories during Q2 (discussed below) suggests many firms were selling off stockpiles rather than placing new orders in June, temporarily dampening freight demand. Also, a decline in U.S. goods imports in June weighed on intermodal volumes, which rely heavily on containerized imports from ports. As inventories thinned and port activity normalized, intermodal volumes recovered in July. This suggests that while underlying demand may be fragile, it remains fundamentally intact, at least for now.

Meanwhile, U.S. **total carloads** rose 4.6% in July 2025 over July 2024, their fifth straight increase. In July, 15 of the 20 carload categories tracked by the AAR saw gains, the most since December 2023. Total carloads averaged 224,568 per week in July 2025, the most for July since 2019. In 2025 through July, total carloads were up 2.8%, or nearly 186,000 carloads, over last year.

Key Takeaways

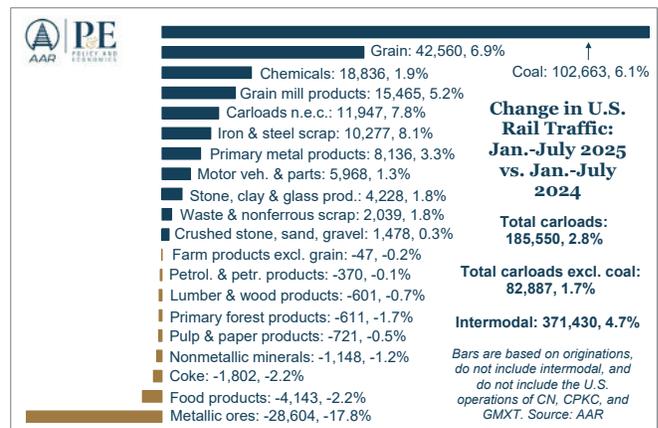
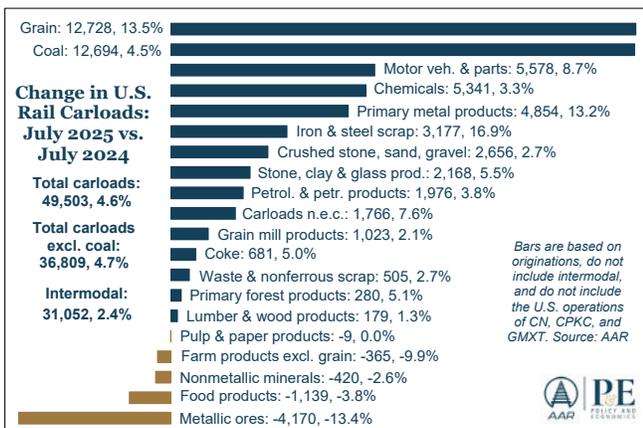
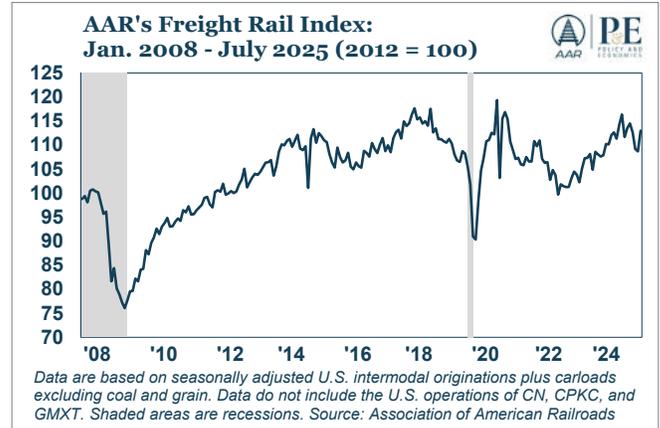
- **Intermodal Rebounds.** U.S. rail intermodal volume rose 2.4% in July 2025 over July 2024, reversing a 2.9% decline in June. Volume in July 2025 was the second most ever for the month.
- **Carload Growth Continues.** Excluding coal, U.S. rail carloads were up 4.7%, their 17th increase in the past 18 months—showing that rail volumes are growing even without support from the industry’s largest carload category.
- **Factory Floor Fatigue?** U.S. manufacturing remains in a protracted slump, with weak new orders and minimal output gains suggesting little momentum for a turnaround. Until demand improves, the sector is unlikely to provide meaningful support to broader economic growth.
- **Soft Landing or Stall?** Sluggish job growth, rising long-term unemployment, and tepid final sales point to an economy losing steam. The coming months will test whether current weakness stabilizes or deepens into something more persistent.

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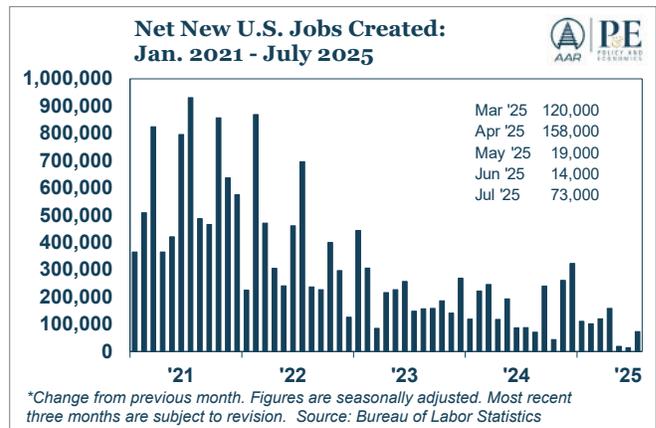
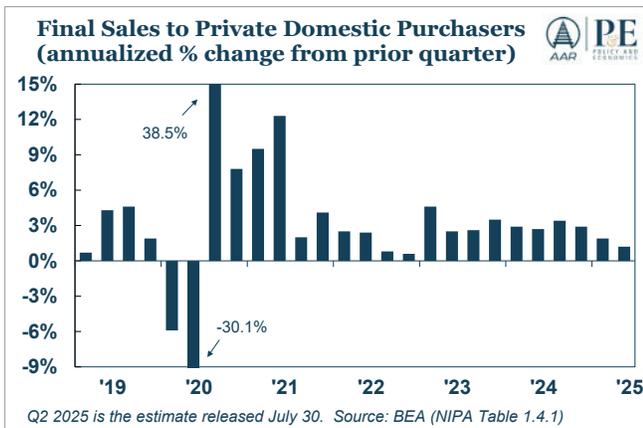
Key Rail Commodities

- Freight Rail Index Rises:** The AAR [Freight Rail Index \(FRI\)](#) measures seasonally adjusted rail volumes excluding coal and grain. The index rose 4.0% from June 2025 to July 2025, its first increase in four months, returning the index to its highest point in four months.
- Grain:** U.S. carloads of grain were up 13.5% in July 2025 over July 2024, their 17th year-over-year increase in the past 18 months. Through July, grain carloads were up 6.9% (nearly 43,000 carloads) over last year. Rail carloads of grain are highly correlated with U.S. grain exports, much of which move by rail. According to the USDA, U.S. grain exports in tonnage terms were up 5.8% in the first half of 2025 over the same period in 2024 and were the most since 2022.
- Coal:** U.S. coal carloads extended their recent gains, rising 4.5% (nearly 13,000 carloads) over last year, marking their fifth consecutive monthly increase. Relatively easy comparisons (due largely to reduced coal carloads last year associated with the Baltimore bridge collapse) are now largely over. In 2025 through July, coal carloads were 1.79 million, up 6.1%, or more than 100,000 carloads, over last year. Excluding coal, U.S. carloads rose 4.7% in July, their best year-over-year percentage increase in 11 months.
- Chemicals:** In June 2025, U.S. rail carloads of chemicals fell 0.6% from a year earlier, their first decline in 22 months. In July 2025, they rose 3.3%, beginning (we hope!) a new streak of carload gains. Carloads averaged 32,978 per week in July 2025, the most ever for July and consistent with data from the Federal Reserve that says U.S. chemical production today is the highest since 2008. Year-to-date U.S. carloads of chemicals through July were 1.02 million, up 1.9% from 2024 and the most ever for the first seven months of a year.
- Industrial Products:** The AAR's "industrial products" category combines eight key carload categories including chemicals, crushed stone, autos, and steel. In July, carloads in this category were up 3.6% over last year, their third straight year-over-year monthly gain and their biggest monthly percentage gain in 19 months. In July, the increase was driven by gains in carloads of motor vehicles (up 8.7%, or 5,600 carloads), chemicals (up 3.3%, or 5,300 carloads), and primary metal products (mainly steel, up 13.2%, or 4,900 carloads). Although U.S. manufacturing output has been mostly stagnant the past few years, recent small increases mean output today is actually at its highest level in three years. Recent growth in rail carloads of industrial products is consistent with that.



GDP Up, Labor Market Shock, Inflation Inches Higher, Manufacturing Still Stagnant

- GDP Growth:** U.S. GDP grew at an annualized 3.0% rate in Q2 2025 over Q1 2025, a sharp improvement from the 0.5% decline in Q1 2025 from Q4 2024, according to the BEA’s initial estimate released July 30. Imports and inventories had an outsized impact on the headline number in Q2. Imports of goods fell an annualized \$340 billion (10.3%) in Q2. Imports are subtracted in GDP accounting, since they represent spending on foreign-produced goods. This decline contributed 5.2 percentage points to GDP growth for Q2. Meanwhile, private inventories fell a preliminary \$26 billion in Q2. A drawdown in inventories means businesses sold more than they produced, reducing the investment component of GDP. In Q2, this subtracted 3.2 percentage points from GDP. Consumer spending contributed 1.0 percentage points to GDP in Q2, while business investment and government spending made smaller positive contributions.
- Final Sales:** *Final sales to domestic private purchasers* is a useful metric that excludes government spending, inventories, and trade from GDP. It offers a clearer view of underlying domestic demand than total GDP. In the second quarter, final sales rose 1.2%, their weakest growth since Q4 2022 and a signal of softening economic momentum amid ongoing uncertainty around jobs, inflation, finances, and interest rates. While not yet indicative of outright contraction, the final sales figure adds to underlying unease and suggests the possibility of an economy edging from deceleration toward something more unstable.



- The Labor Market:** The July BLS jobs report was a surprise. Just 73,000 net new jobs were added in July according to preliminary data. Major downward revisions were even more striking: June’s previously announced job gains were cut from 147,000 to 14,000, and May’s from 144,000 to 19,000—a combined reduction of 258,000 jobs, mostly in government (175,000), manufacturing (42,000), and retail trade (31,000). While not unprecedented, revisions of this scale are rare. The data come from a survey of around 120,000 firms; the revisions reflect late-arriving responses that differed sharply from earlier ones.

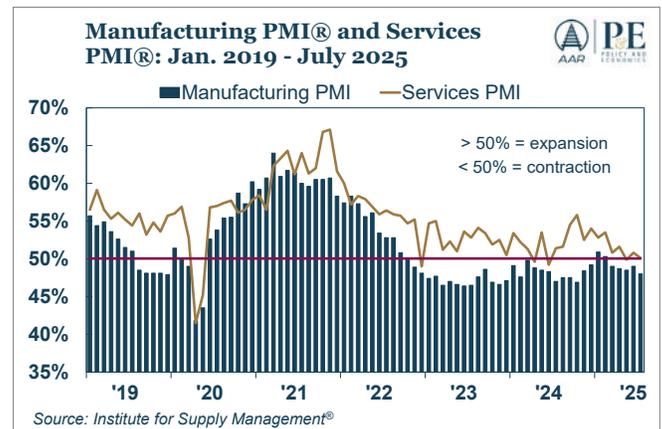
Other indicators suggest the labor market is under increasing strain. First, the unemployment rate rose to 4.2% in July from 4.1% in June. Second, the number of “discouraged workers”—people who want a job but have stopped looking because they don’t believe they’ll succeed—rose to 6.2 million in July, the highest in nearly four years. Because they’re not actively seeking work, discouraged workers are excluded from the official unemployment rate, but their growing ranks point to underlying labor market weakness. Third, total job openings at the end of June totaled 7.4 million, down from 7.7 million in May.

Finally, an increase in long-term unemployment is troubling. The number of people unemployed for 27 weeks or more rose to 1.83 million in July, the highest since December 2021. They accounted for 24.9% of all unemployed workers—the largest share since February 2022. Persistent long-term unemployment can weigh on labor force participation, erode worker confidence, and raise concerns about skill deterioration.

On a more positive note, initial unemployment claims averaged 221,000 in July 2025, their lowest level since January 2025.

- Consumer Spending:** Because consumer spending accounts for around 70% of U.S. GDP, it's virtually impossible for the overall U.S. economy to be healthy if consumer spending is not. Unfortunately, consumer spending may be losing momentum. Adjusted for inflation, it rose a preliminary 0.1% in June 2025 from May 2025 and was up 2.1% over June 2024—its smallest year-over-year gain in 16 months. Spending on goods, which is more important to railroads than spending on services, rose 0.1% in June and was up 2.9% over last year—a significantly smaller year-over-year gain than in other recent months. Recent weakness in job growth threatens to accelerate pressure on household budgets, which in turn would lead to further pressure on consumer spending and rail volumes associated with that spending, especially intermodal.
- Manufacturing:** The Institute for Supply Management's Manufacturing PMI®, a well-respected gauge of U.S. manufacturing health, fell from 49.0% in June to 48.0% in July. July's reading is its lowest level in nine months and clearly below 50%, the dividing line between contraction and expansion. The index has been below 50% in 31 of the past 33 months. The new orders component of the main index was 47.1% in July, up from 46.4% in June but still consistent with ongoing weakness in factory demand.

Meanwhile, Federal Reserve data show that seasonally adjusted U.S. manufacturing output rose year-over-year in each of the first six months of 2025, but only fractionally. In June, output was up just 0.8% from a year earlier. As noted last month, until industrial activity strengthens meaningfully, the sizable share of rail carloads tied to manufacturing will remain under pressure.



- Services:** It is not a good sign that the Services PMI® from the ISM—the services counterpart to the Manufacturing PMI®—was just 50.1% in July, down from 50.8% in June and barely above the 50% threshold that is the dividing line between expansion and contraction. Services account for around three-fourths of the U.S. economy. If the overall services sector weakens significantly, the broader economy is almost certain to follow.
- Inflation:** After steadily cooling through the spring, inflation edged higher in June: The Consumer Price Index rose 2.7% year-over-year, its largest increase since February 2025, while the Fed's preferred inflation gauge—the price index for personal consumption expenditures—climbed 2.6% year-over-year in June, its biggest gain since February as well. Inflation data can be noisy month to month, and the June uptick likely reflects a number of influences. Whether June marks the beginning of a broader trend of steadily higher inflation or just a temporary blip remains to be seen.

Weak Undercurrents, Uncertain Traction Ahead

Despite some signs of resilience, the economy is flashing warning signals. Job growth has slowed sharply, manufacturing remains stuck in low gear, and consumer momentum appears to be softening. Final sales and long-term unemployment trends hint at broader fragility, even as headline GDP figures remain positive. For freight railroads, rail volumes in recent months have remained relatively stable, but the near-term outlook remains challenging. The next few months will be critical in determining whether the economy regains its footing or slips further into stagnation.