ASSOCIATION OF AMERICAN RAILROADS | POLICY & ECONOMICS

July 2025

Rail Industry Overview

Continued Uncertainty On the Rails & Off Them

In recent months the U.S. economy has defied easy characterization, caught between signals of underlying strength and uncertainty regarding the road ahead. Rail freight volumes have followed that lead, reflecting a mix of cautious optimism and lingering hesitation across key sectors. The uncertainty characterizing both the economy and freight markets is likely to continue because key drivers of economic momentum—including the labor market, consumer spending, inflation levels, interest rates, and economic policies across the globe—remain fluid.

Intermodal Down, Carloads Up

U.S. rail intermodal originations fell 2.9% (31,000 containers and trailers) in June 2025 from June 2024, their first year-over-year decline in 22 months. June's decline comes amid broader uncertainties impacting global supply chains that have tempered international shipments. In June 2025, U.S. rail intermodal volume averaged 260,834 units per week, below the 2016-2005 average for June of 263,991.

For Q2 2025, intermodal was up 2.0% over last year. For the first six months of 2025, U.S. intermodal volume totaled 6.98 million units, up 5.1% (340,000 units) over last year and the third most ever for January to June (behind 2018 and 2021).

Looking ahead, intermodal performance will hinge on a range of factors, including developments impacting global supply chains and the strength of consumer-driven freight demand. These trends are always difficult to predict.

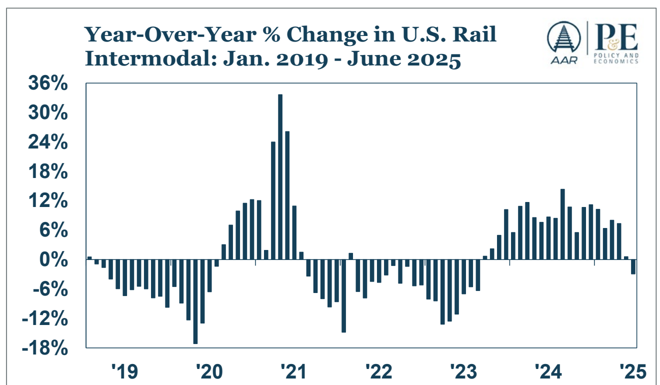
Meanwhile, total U.S. rail carloads (excluding intermodal) rose 2.1% (nearly 19,000 carloads) in June 2025 over June 2024, their fourth straight year-over-year increase—the first time that's happened since late 2021. In June, 10 of the 20 carload categories tracked by the AAR had year-over-year gains. Total U.S. rail carloads averaged 226,259 per week in June 2025, the most for June since 2021. In the 66 months since January 2020, only 14 months had a higher weekly average than June 2025 did.

Total carloads were up 4.8% in Q2 2025 over Q2 2024, their biggest quarterly percentage gain since Q3 2021. In the first half of 2025, total carloads were up 2.4%, or 136,000 carloads, over last year.

Key Takeaways

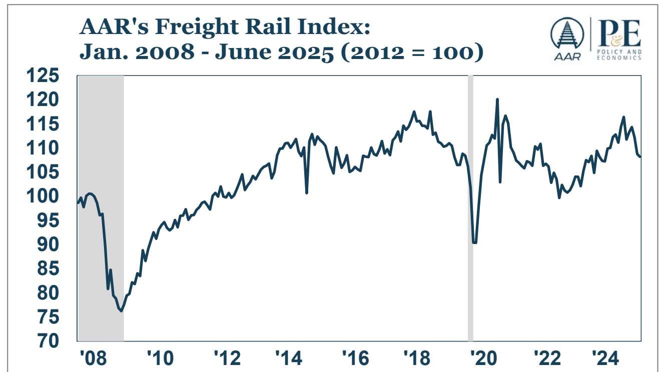
- **Carload Growth Continues.** Total U.S. rail carloads rose 2.1% in June—their fourth straight year-over-year monthly gain—highlighting steady, albeit uneven and still relatively subdued, support from the industrial economy.
- **Intermodal Stumbles.** U.S. rail intermodal originations fell 2.9% in June—their first year-over-year decline in nearly two years—as global uncertainties and softer consumer demand weighed on container volumes.
- **Little Forward Momentum for Manufacturing.** The ISM's Manufacturing PMI® ticked up to 49.0% in June from 48.5% in May but remains (for the 30th time in the past 32 months) below 50%, indicating manufacturing contraction.
- **Consumers Cutting Back?** Household spending growth has slowed recently, raising questions about whether consumers—long a key pillar of economic momentum—will continue to offset headwinds in elsewhere in the economy.

***Subscribe** to receive the Rail Industry Overview directly in your inbox. It's free!*



Data are based on originations and do not include the U.S. operations of CN, CPKC, and GMXT. Source: Association of American Railroads

Recent Trends for Key Rail Traffic Metrics



Data are based on seasonally adjusted U.S. intermodal originations plus carloads excluding coal and grain. Data do not include the U.S. operations of CN, CPKC, and GMXT. Shaded areas are recessions. Source: Association of American Railroads

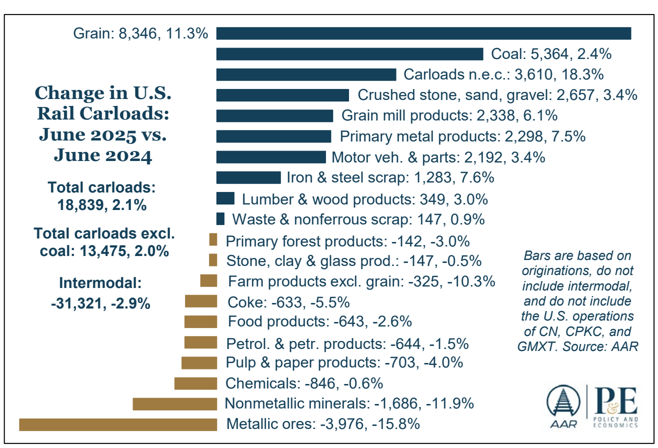
- ***Freight Rail Index Lower in June:*** The AAR Freight Rail Index (FRI), a gauge of seasonally adjusted rail volumes excluding coal and grain, fell 0.5% from May 2025 to June 2025, bringing the index to its lowest point since May 2024. June's decline mainly reflects intermodal softness. Seasonally adjusted carloads excluding coal and grain and excluding intermodal rose 0.7% in June from May, reflecting pockets of strength for certain key rail sectors amid current economic uncertainties.

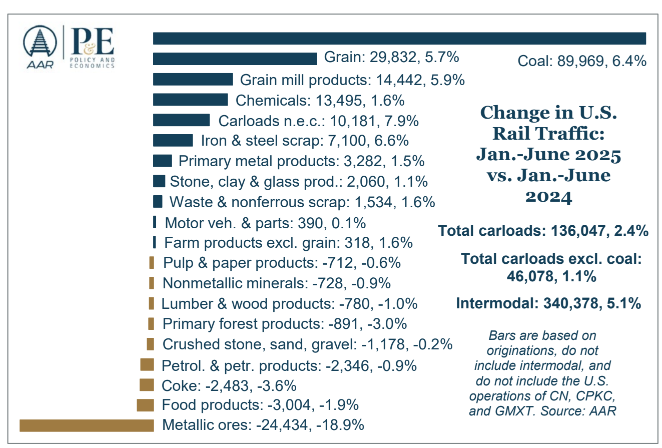
- ***Coal:*** U.S. coal carloads rose 2.4%, or nearly 5,400 carloads, in June, marking coal's fourth consecutive year-over-year gain following 14 straight declines. Recent percentage gains for coal reflect carload weakness last year more than higher volumes this year. For the first six months of 2025, coal carloads were 1.49 million, up 6.4%, or nearly 90,000 carloads, over last year. Excluding coal, U.S. carloads were up 2.0% in June, their 16th increase in the past 17 months.

- ***Chemicals:*** Only coal accounts for more carloads for U.S. railroads than chemicals. In June, chemical carloads fell 0.6% from a year ago, their first decline in 22 months. Carloads averaged 32,744 per week in June 2025, the second most ever for June (behind 2024). Year-to-date carloads totaled nearly 859,000, up 1.6% (13,500 carloads) from last year and the most ever for the first half of a year. A sustained recovery in manufacturing would likely translate into higher rail volumes for chemicals, given chemicals' critical role as inputs across a wide range of manufactured products. Higher natural gas prices this year compared to last year have likely also weighed on chemical production and, by extension, rail carloads of chemicals.

- ***Grain:*** Grain lags only coal and chemicals in terms of U.S. carload volume. In June, grain carloads rose 11.3% over last year, their fourth consecutive gain and the 16th in the past 17 months. Year-to-date grain carloads through June were up 5.7% (nearly 30,000 carloads) over last year. Most of the variability associated with rail carloads of grain is associated with grain exports. According to the USDA, in 2025 through May, U.S. grain exports in tonnage terms were up 3.9% over the same period last year, with big gains in corn exports exceeding declines in soybeans and sorghum.

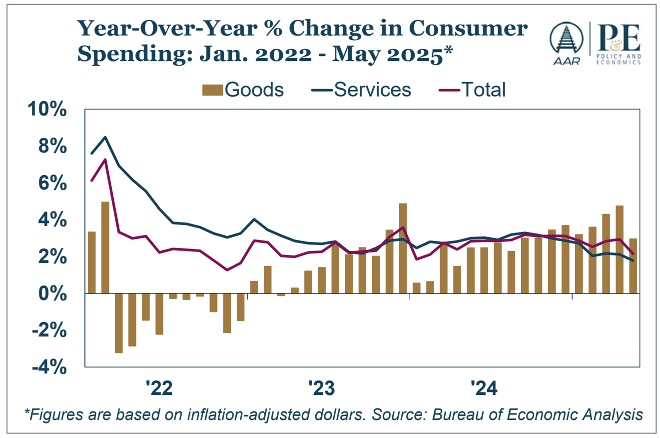
- ***Industrial Products:*** The AAR's "industrial products" category, an aggregation of a number of key carload categories including chemicals, crushed stone, autos, and steel, rose 0.4% in June; year-to-date carloads were down 0.3%. Over the past 18 months, this category has seen declines in 10 months and gains in eight, with most of the gains being small. This sluggishness in rail industrial volumes reflects the muted momentum that has characterized the U.S. industrial economy over this period.





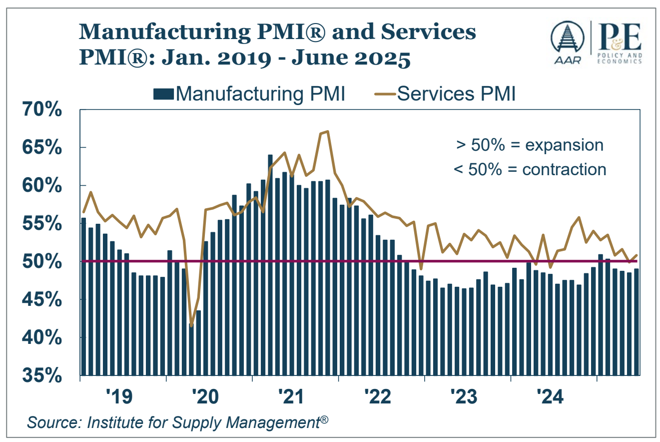
Reduced Momentum for Consumer Spending, Inflation Remains Muted, Labor Market Mixed

- ***Labor Market*:** Preliminary data show net job gains of 147,000 in June, continuing a string of solid monthly increases that have underpinned consumer spending and helped sustain economic momentum. The unemployment rate declined to 4.1%, down from 4.2% in May, while the prime-age labor force participation rate (age 25-54) edged up, signaling continued engagement among core working-age adults. Notably, the "quits rate—often viewed as a proxy for worker confidence—rose in May, matching its highest level in a year. And total job openings at the end of May were 7.8 million, the highest in six months. On the other hand, initial claims for unemployment insurance averaged 242,000 in June, the highest since August 2023, suggesting emerging cracks in the labor market. Taken together, recent indicators point to a moderately strong but gradually cooling job market. For railroads, this means consumer-driven freight demand seems likely to hold up, at least for now.



*Figures are based on inflation-adjusted dollars. Source: Bureau of Economic Analysis

- ***Consumer Spending*:** Consumer spending accounts for about 70% of U.S. GDP, so when households pull back, the entire economy feels the impact. Tentative signs indicate this might be starting to happen. In May 2025, total inflation-adjusted consumer spending rose a preliminary 2.2% over May 2024, the smallest year-over-year gain in 15 months. For goods alone, spending rose 3.0%, the smallest gain in 9 months. On a month-to-month basis, total spending fell a preliminary 0.3% in May from April (the third decline in the first five months of 2025); spending on goods fell 0.8%. A sustained pullback in spending would constrain rail volumes, especially intermodal.



Source: Institute for Supply Management®

- ***Manufacturing*:** The ISM's Manufacturing PMI® ticked up to 49.0% in June from 48.5% in May but remains (for the 30th time in the past 32 months) below 50%, indicating contraction. The new orders component fell to 46.4% in June, suggesting a low likelihood of a quick turnaround. Manufacturing output was essentially unchanged in May and up just 0.5% from a year ago. Until industrial activity improves, the significant share of rail carloads linked to manufacturing will remain under pressure.

- ***Services*:** Services represent more than 75% of U.S. GDP, making the overall economy highly sensitive to major downturns in service-related activity. That hasn't happened yet, but the Services PMI® from the ISM is flashing yellow: it was 50.8% in June, up from 49.9% in May but only slightly above the 50% "contraction" threshold. If weakness in services persists, it could cool job growth and consumer demand, dampening intermodal flows further.

- ***Inflation:*** Inflation shows no clear signs of acceleration. In May 2025, the price index for personal consumption expenditures, the inflation measure preferred by the Federal Reserve, was up 2.3% over May 2024, about the same increase as the prior two months. The CPI was up 2.4% year-over-year in May. Both measures are not far from the Fed's long-term goal of 2% inflation. The Fed will be closely watching inflation and other economic data as it debates if and when to lower interest rates in the months ahead.

Don't Assume the Second Half Will Offer More Clarity

The first half of 2025 offered few clear signals, and the months ahead may be no different. Freight volumes, like the broader economy, will likely continue to reflect a mix of competing forces—some supportive, others restraining—as businesses and consumers navigate an unsettled economic landscape.