

## STEEL WHEELS



Transport Policy in the US  
Finally Starts to Change

*Oakland, California by SWAMPY | Edited by Gregor Macdonald*

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## STEEL WHEELS

James Howard Kunstler likes to say America has a rail system that the Bulgarians would be ashamed of. Indeed, among OECD nations US rail infrastructure is a joke. But after 60 years of neglect, a new direction in US transport policy is slowly creaking to life. Perhaps the Obama administrations doesn't like to advertise it, but if we look inside the funding in the Dept of Transportation, the tipping away from highways has begun.



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## A NOTE FROM THE EDITOR

Welcome to StockTwits Macro Weekly, the weekly magazine of the StockTwits investment community. Each issue features a core essay, written by the Editor. Around this, we build in the key news events and observations, from the past week. [To have each issue sent to you, sign up here.](#)

You will also find StockTwits Macro Weekly functions as a live document, that is eminently clickable and is therefore a helpful launching pad to other relevant content. Feedback from readership is welcome, and we are always on the lookout for written contributions from the community: [gregor@stocktwits.com](mailto:gregor@stocktwits.com)



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**STEEL WHEELS**—When the Obama Administration entered office one of the surest bets was that the President would push hard for a revival of American rail. But like so many sure things about the Hope and Change candidate, that was not to be. Instead, just as the President would disappoint those hoping for banking reform or climate change legislation, his administration perplexed supporters by investing in cars, and highways. First came the additional billions for Detroit. Then came cash for clunkers. All the while the President gave speeches about how much he loved trains. In the US he gave speeches. In France he gave speeches. Presidential advisors leaked several times to the press that, “the President really loves trains” just so there was no mistake that Obama, from Chicago, believed that big changes were required in American transport. Instead, when the first budget emerged for the Department of Transportation (DOT), only a tiny but symbolic change upward occurred in rail spending. The headline 10+ billion that was devoted as starter funds to high-speed rail actually was part of the original Stimulus bundle, not the regular budget. One again, *status quo you can believe in* triumphed over change.



This was all indeed baffling for a couple of reasons but two issues stand out. First, the US at the time of the 2008 election was dotted with endless public transport projects that were very much in progress, but far from completed. An incoming administration could have easily greenlighted every ongoing initiative from Denver’s [FasTracks](#) to Seattle’s Sound Transit. For an economy that was poised to go fully Keynesian, and with a gaggle of incoming administration economists on the hunt for “shovel-ready” jobs, why not choose rail? Second, the previous five year credit-driven expansion had dead-ended into a commodity spike, with oil rising steadily each year into a high near 150 dollars. As a result, public transport ridership started to soar in 2007 in cities

**Indexes**

INDU 11118	TNX 2.61	GOLD 1357.36	VIX 21.20	SPX 1183.26	DXY 77.038
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## StockTwits.TV: Market Shrinkology w/ Dr. Philip Pearlman



This week we return to Market Shrinkology with Dr. Phil Pearlman. And why not? Market sentiment is starting to run toward's extremes, as evidenced by this weekend's bullishness in [Barron's Big Money Poll](#), and QE 2 is on deck for next week. And besides, Phil kicks off his show by saying, "Welcome to the Asylum!" And who wants to miss out on that? We need more PhD's with a sense of humor!

Phil kicks off this week's show making an important point: "When we talk about the psychological conditions of the market, we tend to restrict ourselves to a discussion of sentiment. But that's too narrow, and limits our ability to understand markets. In fact, psychodynamics encompasses many aspects of human experience." Indeed. Watch this rich, informative half-hour show in which Phil lays out his case. Yet another example of the incredible educational value of StockTwits.tv. [Watch the show here.](#)

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from Los Angeles to Chicago. Given that gasoline prices are often the bane of a politician's existence, it was also surprising that Obama and the Democrats did not embrace rail more enthusiastically. After all, oil prices were low when they came to office but the cycle gave good odds that oil prices would be high again by the next election. Why didn't the Democrats take out a political insurance policy?

Two years later, just such an insurance policy may be on the minds of Democrats. For, in the last twelve months, a large shift has taken place in the rhetoric coming from the DOT's [Ray LaHood](#), and we have also seen a big swing towards rail in DOT funding. The signal to the change may have come earlier this year, and was little noticed. In a March speech, LaHood announced an end to the traditional policy of favoring motorized transport over non-motorized transport. [National bicycle enthusiasts were ecstatic.](#) In addition, this also kicked off a year in which LaHood would talk a great deal about the importance of creating [livable communities](#) that had good access to public transport, and were walkable. Did this finally signal a change? In short, yes.

While the administration's funding so far of high-speed rail still amounts to starter funding, the last two [TIGER Grant funding](#) releases revealed a treasure trove of smart, well-targeted picks that will enhance various commuter rail, light rail, passenger rail and especially freight rail in such places as Boston, Los Angeles, and Seattle-Portland. What's revealing about the TIGER grants is that, because they are discretionary, they potentially indicate *a swing* in thinking and policy from the government on the issue of transport. DOT could have easily decided to fund a lot of highways with these grants. They did not, and it's worth it to actually review the full roster of [this year's grants](#), and [last \(fiscal\) year's grants](#). The tipping away from mega-funding for highways has begun.

Looking at the overall numbers, it is indisputable that the highway division of DOT is still taking the largest share of dollars. However, a marginal shift is taking place within both the Rail and the Transit divisions that emphasizes rail, bus rapid transit, and other transport modalities. In addition, more of the [funding that is coming through DOT as a whole](#) is finding its way towards Port infrastructure, even if that means that spending that is technically “tagged” as highway spending but is actually being devoted to roads and bridges around the nations ports. Accordingly, we can make a second conclusion about the transitional shift taking place at DOT: there is a new, big push to address the infrastructure crucial to **exports**. Whether it’s railyards at the Port of Vancouver (Washington, USA), or rail lines that would better ferry lumber and other resources from the interior to ports, it appears the DOT has been marshaled to enhance the administration’s stated policy of lifting exports. Ports at Providence, Miami, Los Angeles are being addressed along with gateway freight networks across the MidWest. In addition, DOT is not only pushing its new perspective through capital grants, but is also providing funding for new studies as well. The upsurge in port infrastructure investment is not lost on the industry either, which notes [the doubling from the first round of TIGER grants](#) earlier this year.

Perhaps the synergy that DOT and the administration needs to think about next is the need for the US to actually combine innovation in transport architecture, with manufacturing of transport equipment. The US cannot get ahead in this area if it continues to source the rolling stock and power equipment from outside the country. In a sidebar story in today’s issue, Germany is clearly benefiting from the virtuous cycle that comes from being a capital equipment innovator, *and manufacturer*. This is what the United States needs to do. One example would be the opportunity afforded in Portland, Oregon where a local population demands high-

## Gross Versus Gross



We’ve read a number of articulate rants this week against the US Federal Reserve. The surprise being that this collection of angry material did not emanate from the blogosphere. Instead, it flowed from the likes of Jeremy Grantham of GMO in Boston, and Bill Gross of PIMCO. What to make of it?

In the case of Bill Gross, it is perhaps a little more difficult to accept his [indigation at the serial failures of FED policy](#). After all, it was Gross specifically and his colleague Mohamed El-Erian who were loudly adamant as the financial crisis began, that the US government had to put its own balance sheet in play. To boot, PIMCO no doubt benefited from acting as an influence on monetary and fiscal policy, if not by the force of argument than by the scale of their AUM. Now trillions of dollars later on both the Treasury’s and the FED’s balance sheet, Gross wants it known he disagrees. Oh really?

Perhaps Gross is experiencing a genuine conversion. He’ll not be the first to have underestimated the crisis at the outset, only to balk at the FED’s solution now 2 years later.

## Germany Blossoms



It's impressive enough that Germany weathered the financial crisis and global recession better than most. But it's truly remarkable that the Western European nation just reported [unemployment numbers at their lowest in 20 years](#). This means that the structurally high unemployment which plagued the country in the 1990's has been resolved. This time, miraculously, when the rest of the OECD is either economically moribund, over-indebted, or both.

What does Germany have that nations like Britain, Spain, or especially the United States lack? Is it the array of very good quality public services from education to health care, to transport? (These require a much higher rate of personal income tax, by the way.) Maybe. In short, Germany has specialized manufacturing. Specifically, the high-end capital equipment that Asia needs for its infrastructure buildout. In fact Germany, when it comes to engineering, may embody the virtuous cycle that Andy Grove spoke of in his own lament for what America has now lost. By combining innovation with manufacturing, Germany has retained ownership of the technology. America: take a hint.

end, intelligent transport solutions and where rolling-stock manufacturing has begun at [United StreetCar](#). The political class of Oregon and also the business community are very much in alignment on this theme, and there is already talk of making Portland the [streetcar capital of the world](#). And why not? This is exactly the dynamic that Andy Grove spoke of in his key essay: [How America Can Create Jobs](#). But a city like Portland can accomplish all this and also finish up with a flourish: anything "Made in PDX" can be easily launched for export right at the Columbia, and floated downriver to the Pacific, and on to Asia. Clearly the US is set up better than most think, to conduct this big transition. The country simply needs a kick to get started.

--Gregor Macdonald, 31 October—Amherst, MA

