# Warning! What Canadian National Railway's (TSX:CNR) Earnings Say About the Economy

## Description

Railways have been one of the most important industries since the industrial era. They connect cities and economies from coast to coast, shipping every type of good imaginable.



This makes railroads and their operating numbers a solid gauge of how the economy is doing, since the industry is so entwined in the economy.

Not to mention, many of the goods shipped by rail are coming from or going to industrial sector businesses, which are the backbone of the economy. When volumes begin to soften, and a new trend is being born, it will be clear that there is something bigger developing in the economy.

**Canadian National Railway** (TSX:CNR)(NYSE:CNI), one of the largest railroads in North America, may be the best railroad to look at considering its tracks span from coast to coast in Canada. In addition, its tracks also run south through Chicago and down through the United States towards New Orleans and the Gulf of Mexico.

By having such a large network, analyzing its business can give you a much stronger idea of what's going on because it's such a large sample size.

The company just reported earnings this week, and the outlook could spell trouble. Although it managed to post solid results for the third quarter, it did so despite a softening economy.

CN managed to grow its revenue by 4% in the quarter, despite its total revenue tonne miles (RTM) being down by 1%. It was the rail-centric supply chain that led the decline, with forestry and metals and mining down the most.

Forest product revenue was down 11% on a 14% decline of its RTM. The metals and mining revenue decreased by 7% on a 13% decline in RTM. The rail-centric division saw total revenues actually grow 1%, despite its total RTM declining by 3%.

Meanwhile, on the consumer products side, it managed to grow revenue by 13% on a 2% increase in

RTM for the segment.

This continues to highlight the trouble being seen in the industrial sector, while the consumer side is still growing considerably.

It also revised its 2019 outlook more conservatively to reflect the changing economic environment. It now expects to only achieve high single-digit growth in its diluted earnings per share. This was revised down from the previous quarter when it said it was expecting low double-digit growth.

This doesn't seem to be too alarming, but CN wouldn't reduce its expectations, unless it's seeing something in the economic environment to suggest it will have trouble achieving its goals.

CN is such a strong company and operator, it could hide some of the trouble of reduced activity in the industrial sector. Investors looking at CN may be impressed by this, but if you are analyzing it to try and get an idea of the state of the economy, it could be misleading.

What you need to know is that the industrial environment is softening. Whether or not it is a trend that will be prolonged remains to be seen.

However, given the rest of the growing uncertainty in the global markets, and the fact that we haven't had a recession in a decade, and it seems as though a recession is more likely than not.



Noticing these trends ahead of time and confirming them through more data is what will let you know that there may be market trouble, so you can analyze your portfolio and sell any stocks that could plummet in a market crash.

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