

A faint, dark blue world map is visible in the background of the slide, centered behind the text.

# Private Rail Networks in the New Economy: America's Railways Outlook and Trends

€by Logistics Conference

Bologna, Italy

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# Good to be in Bologna



- ▶ City of culture
- ▶ Crossroads of Europe
- ▶ Home to important conferences
- ▶ And other obvious attractions

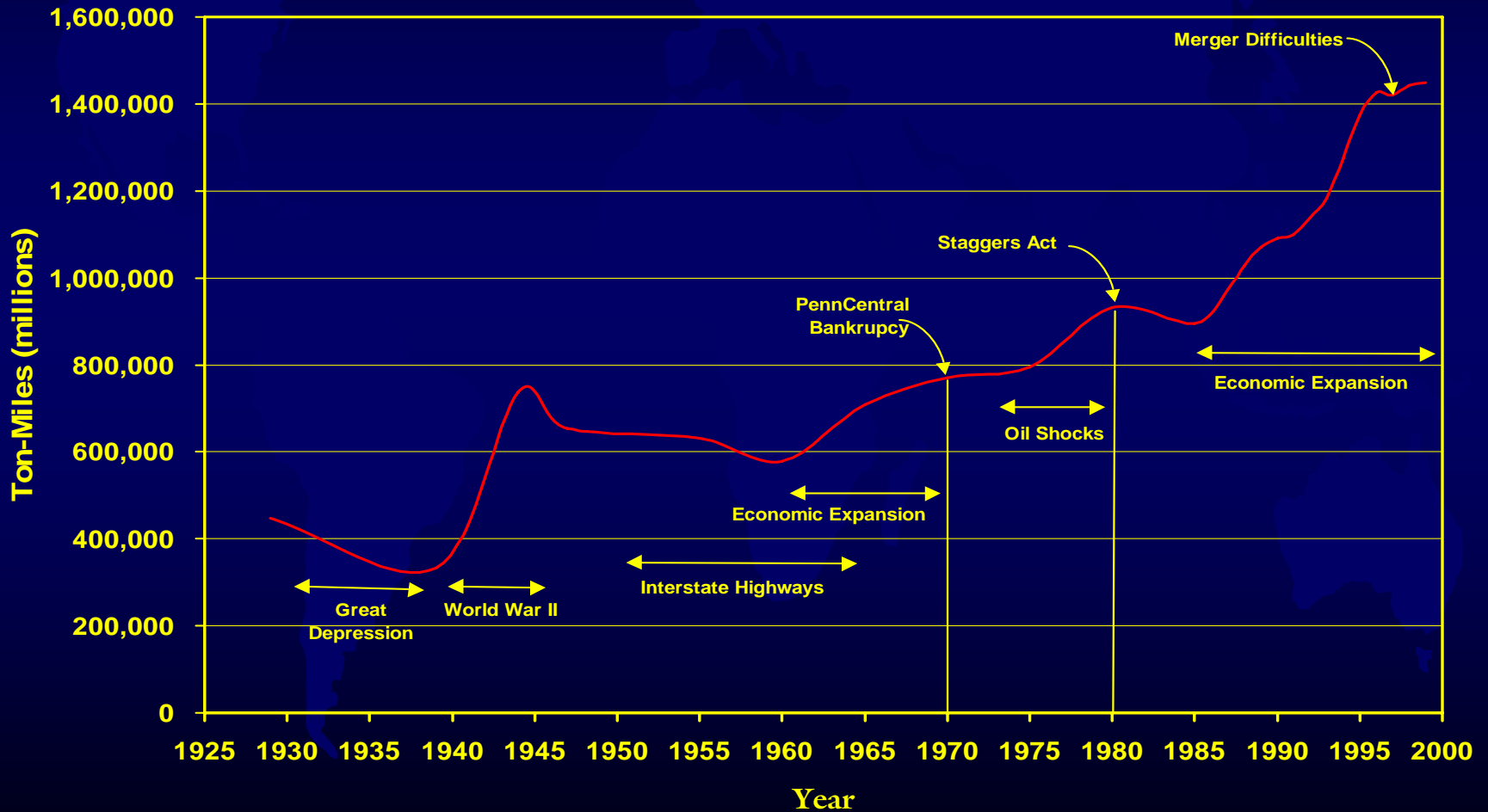
# Railways critical to development



- ▶ America's railways have been critical to the development of the region and its economy.
- ▶ From the earliest developments in the late 1800s to present day, most US railways are private.
- ▶ Nearly all railways in North and South America are now privately owned and/or operated.

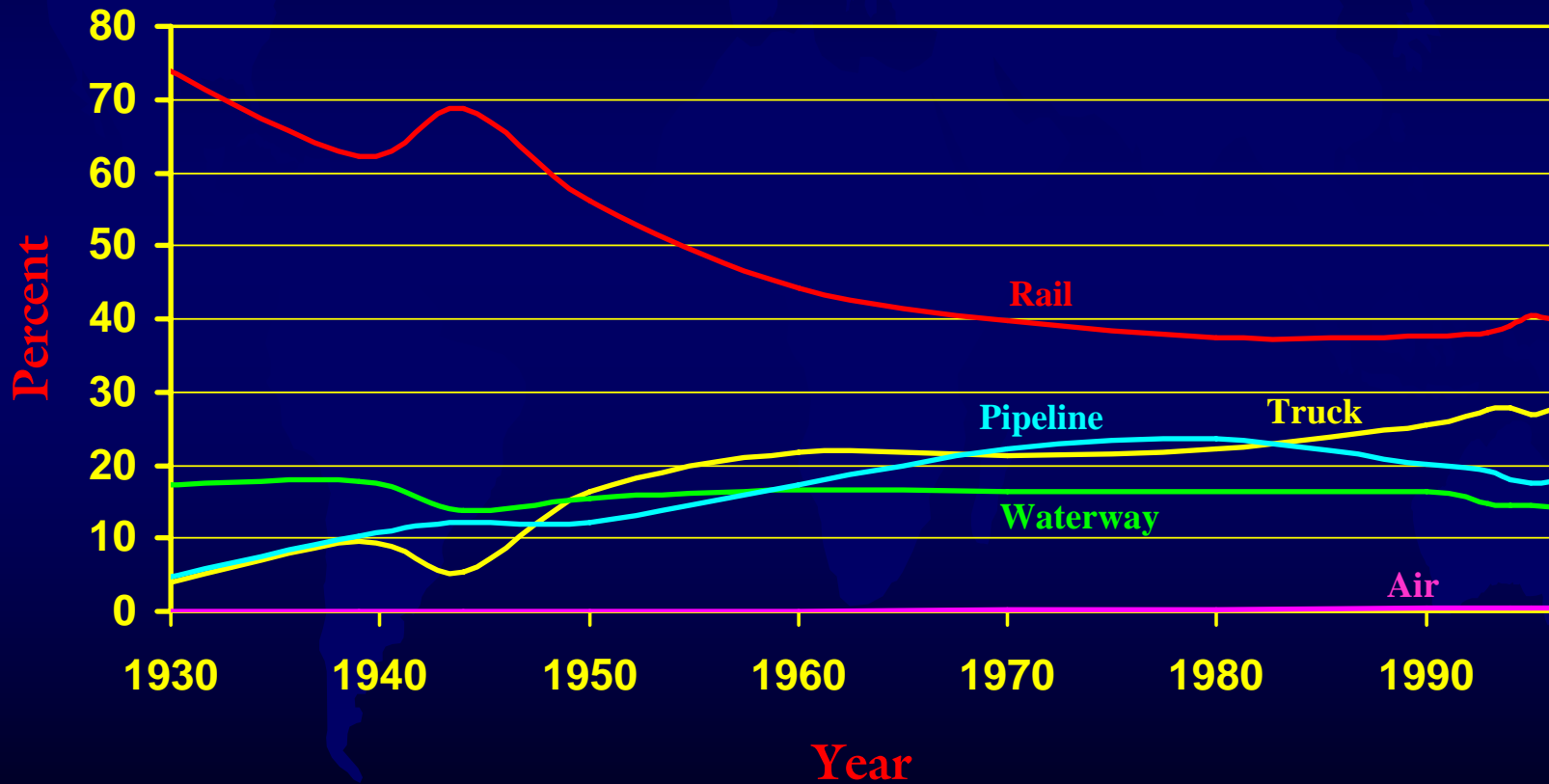
# US railway freight traffic growing

US Rail Traffic



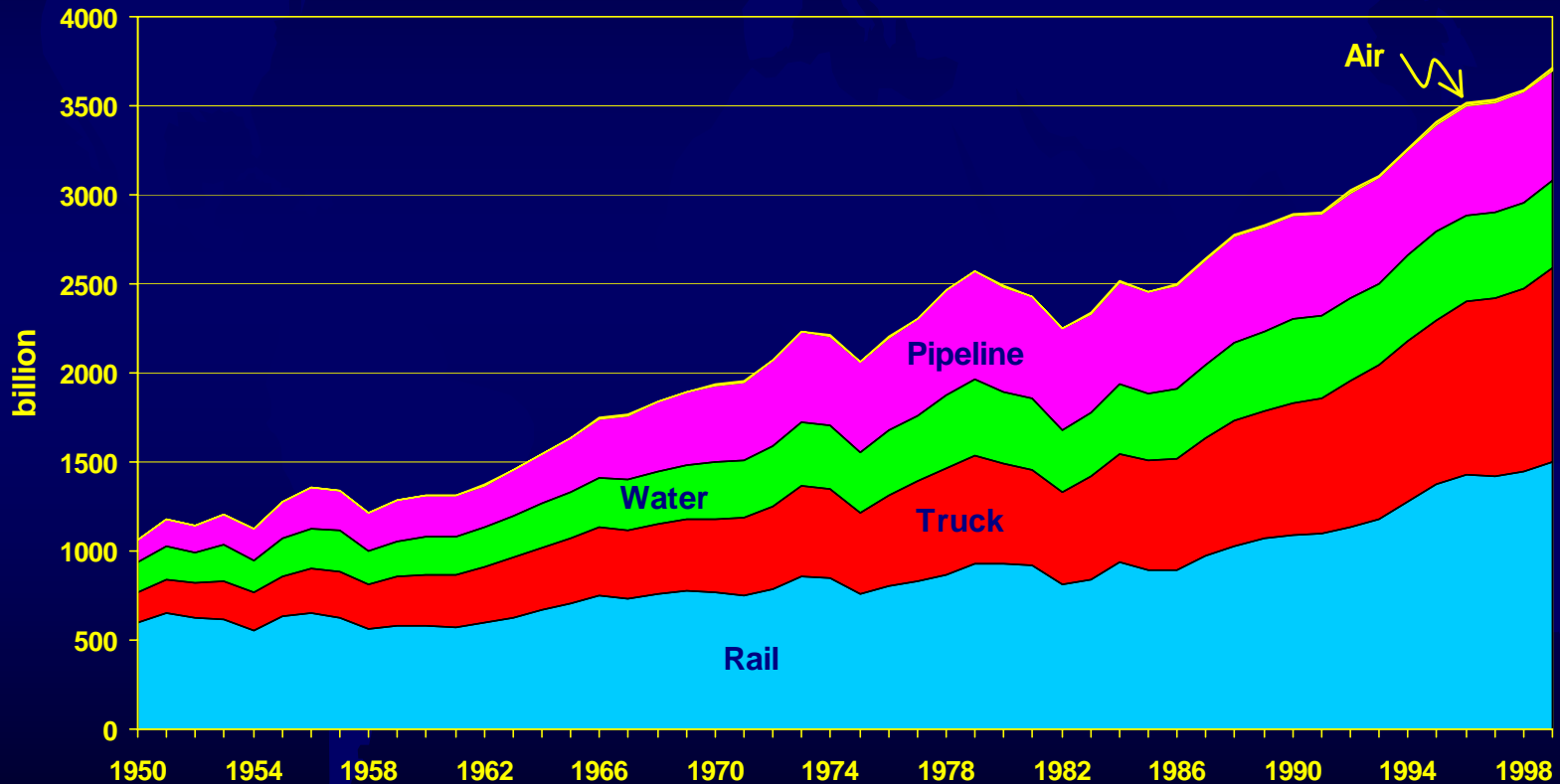
# After a long decline...

## Transport Market Shares



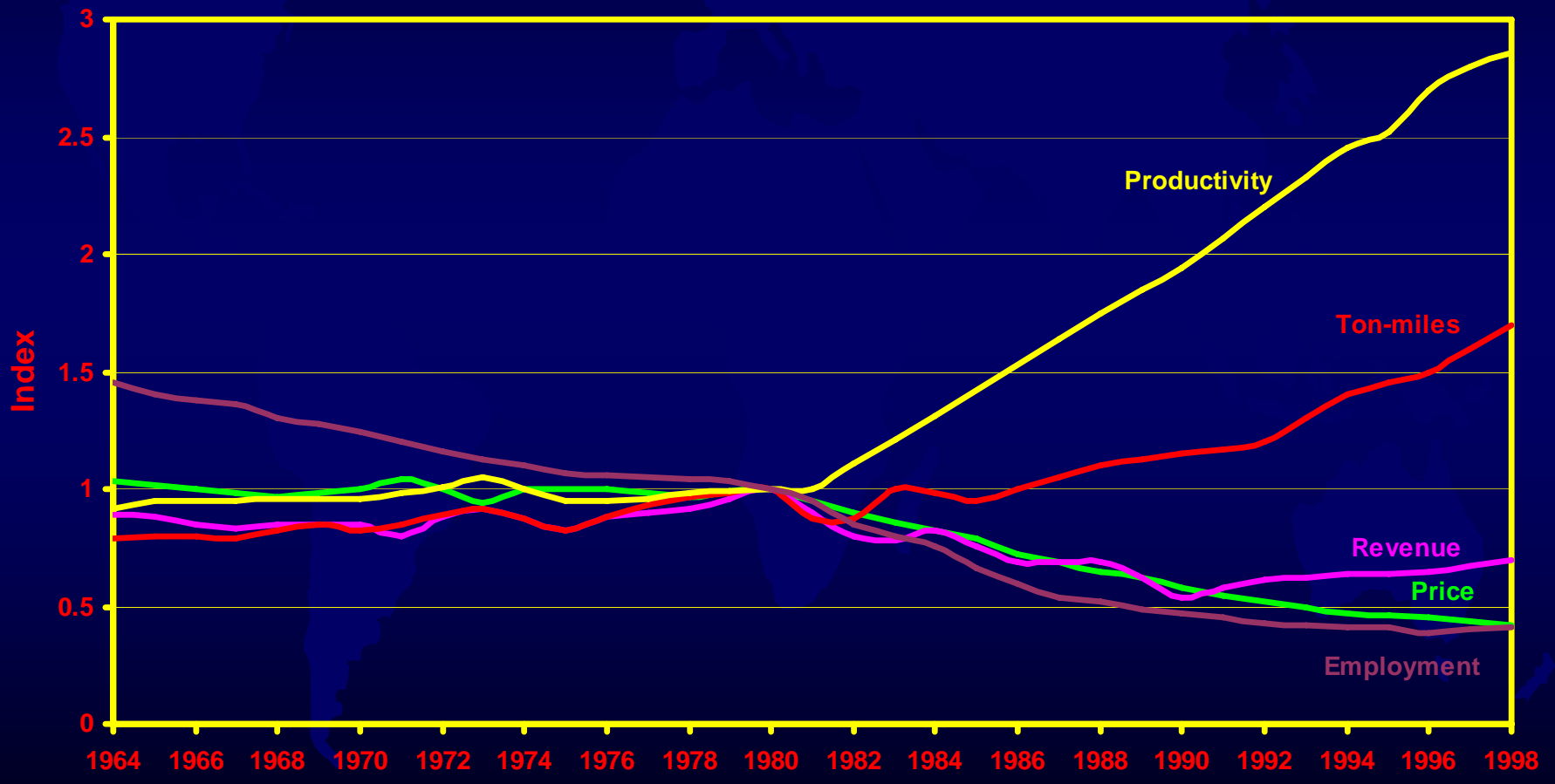
# Rail market presence increased

Intercity Ton-miles



# Good performance since deregulation

## 35 Year Class I Rail Trends



# Economy is now under performing

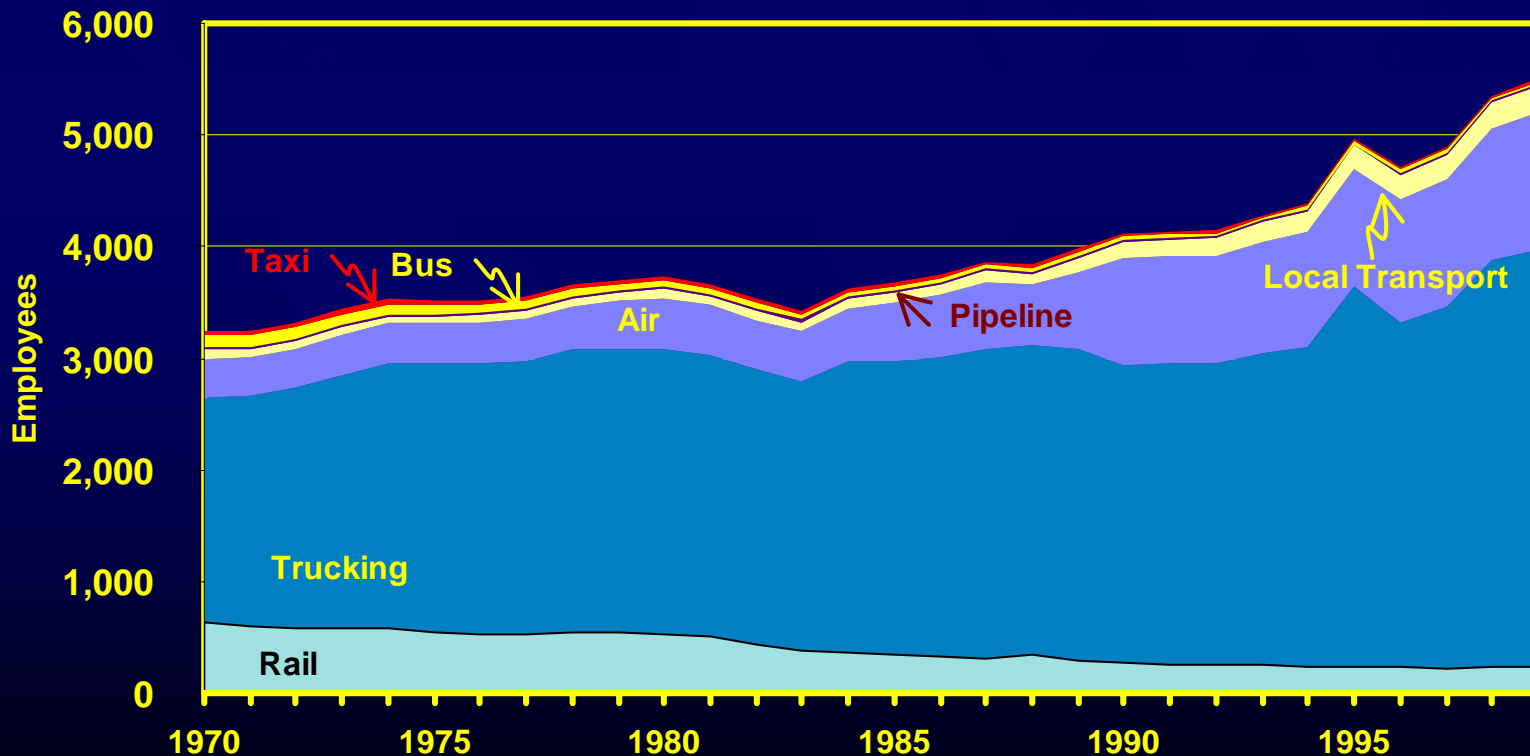
- ▶ Surprisingly good traffic growth in 2000
- ▶ Slowing rapidly in 2001
- ▶ Uncertainty in several major rail markets
  - ▶ Automotive falling like a rock
  - ▶ Chemicals down
  - ▶ Coal holding own or increasing
  - ▶ Intermodal up but slowing
- ▶ Investment plans have slowed



# Earnings improvement needed

- ▶ Cost cutting was principal tool in the past
- ▶ But employment cannot be cut much in the future

Transport Employment

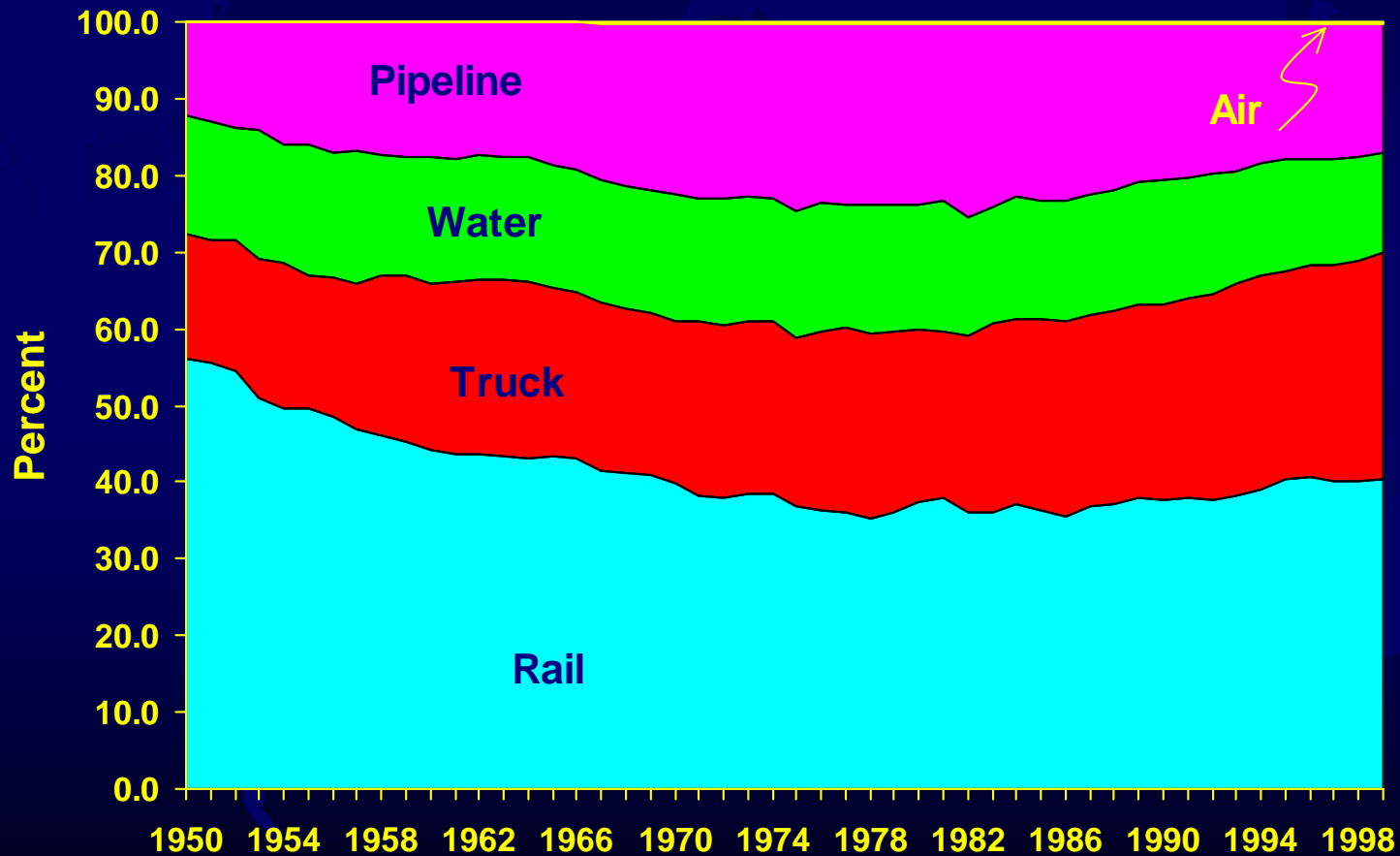


# And, customers are unhappy

- ▶ Railroads too difficult to do business with
- ▶ Balkanized business practices
- ▶ Increasing monopoly concerns
- ▶ But the real problem is service delivery
  - ▶ Unreliable deliveries
  - ▶ Shipper unrest may impact further consolidations
  - ▶ Pressure on price and competition
- ▶ Recent merger activity caused traffic shifts

# Recent market share declines

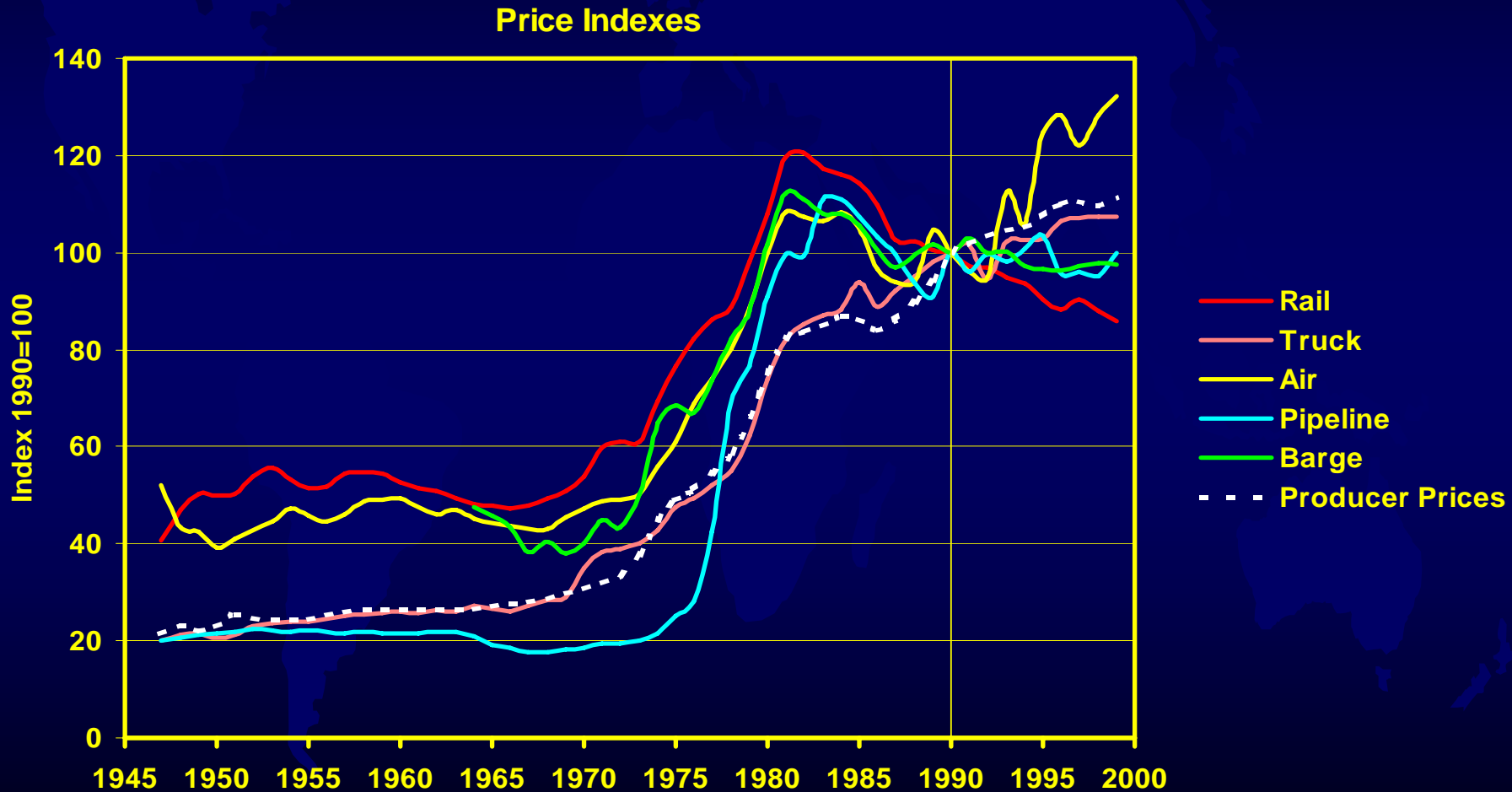
## Ton-Mile Share



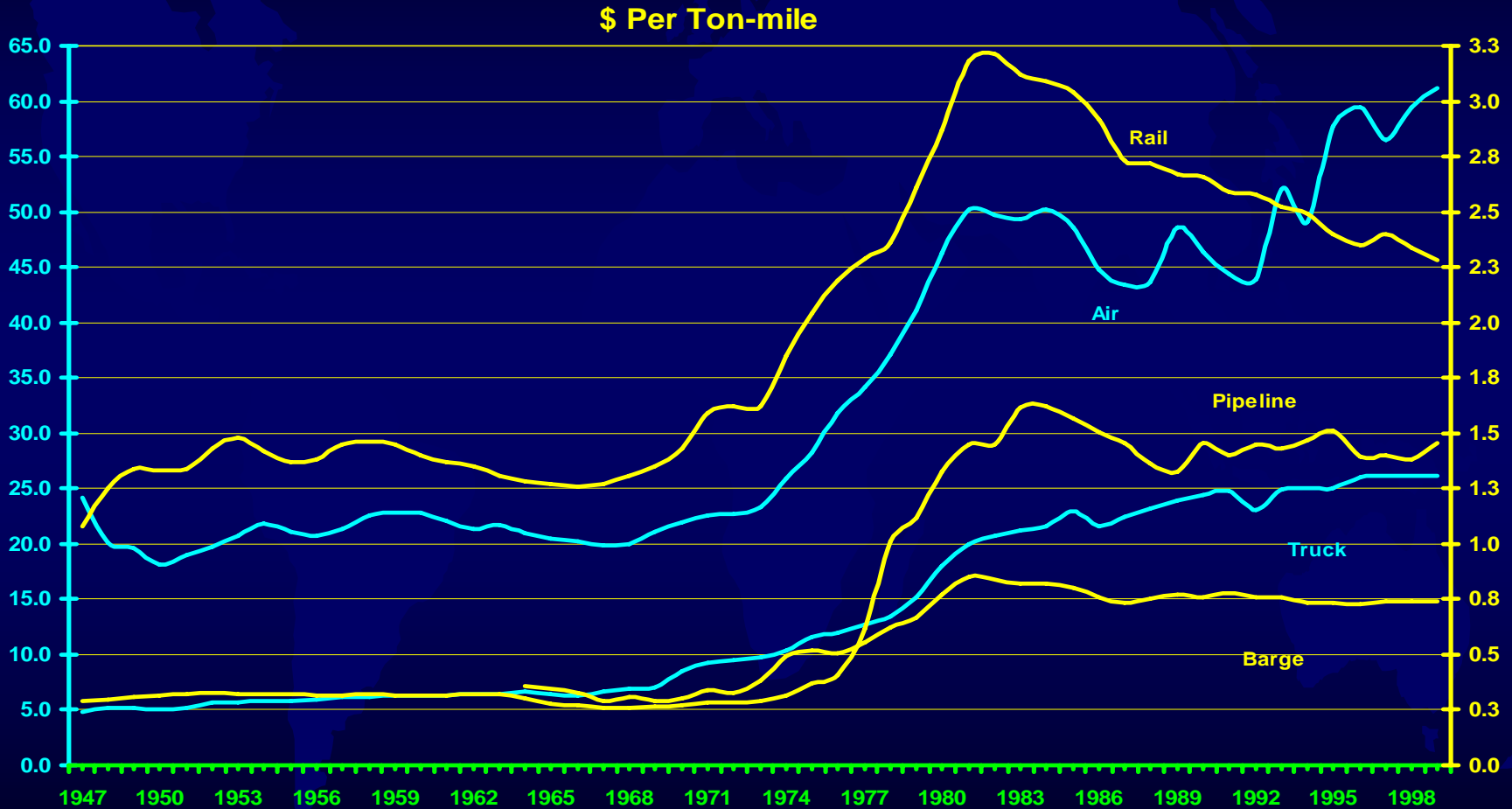
# Captive shipper pricing issues

- ▶ Probability and impact of further change depends upon captive shipper pricing
- ▶ Railroads claim deregulation has driven prices down since 1980, captive shippers don't agree
  - ▶ Average rail price down by almost 50% on constant dollar basis
  - ▶ BLS data shows general price declines for all major commodities
  - ▶ Some say price declines are just mix change

# Most real transport prices down



# Even on current price basis



# Outlook uncertain

- ▶ Merger problems raised political stakes
- ▶ Many shipper groups gunning for majors
- ▶ Recent government actions delays decisions
- ▶ Several bills in Congress for open access
- ▶ Could change the nature of the industry
- ▶ Slowing economy is changing mix (less auto traffic, more coal) depressing margins

# More rail industry change is coming

- ▶ Lots of change over the past 20 years
  - ▶ Improved plant, equipment, productivity
  - ▶ Railroads continue to be financially healthy
  - ▶ Increasingly sophisticated marketing
  - ▶ In recent years rail stocks have been shunned
- ▶ Must overcome service delivery problems
- ▶ Find new ways to compete
- ▶ Regulatory change could dampen earnings



# Greater access—reduced earnings?

- ▶ US roads have a great deal of experience with trackage rights and other access arrangements
- ▶ But, *required* access, coupled with changes in Government view of competition will result in price pressures
- ▶ Pressure on Congress to increase competition
- ▶ Industry response is increase in alliances

# US roads already share access



# Earnings from new sources

- ▶ New technologies
  - ▶ E-commerce growing substantially
  - ▶ Highly productive locomotives
  - ▶ Improved control systems
- ▶ Advanced management techniques
  - ▶ New organization structures, new pricing strategies
  - ▶ Carrier alliances
- ▶ Service quality again a focus
- ▶ Mergers, consolidations continue

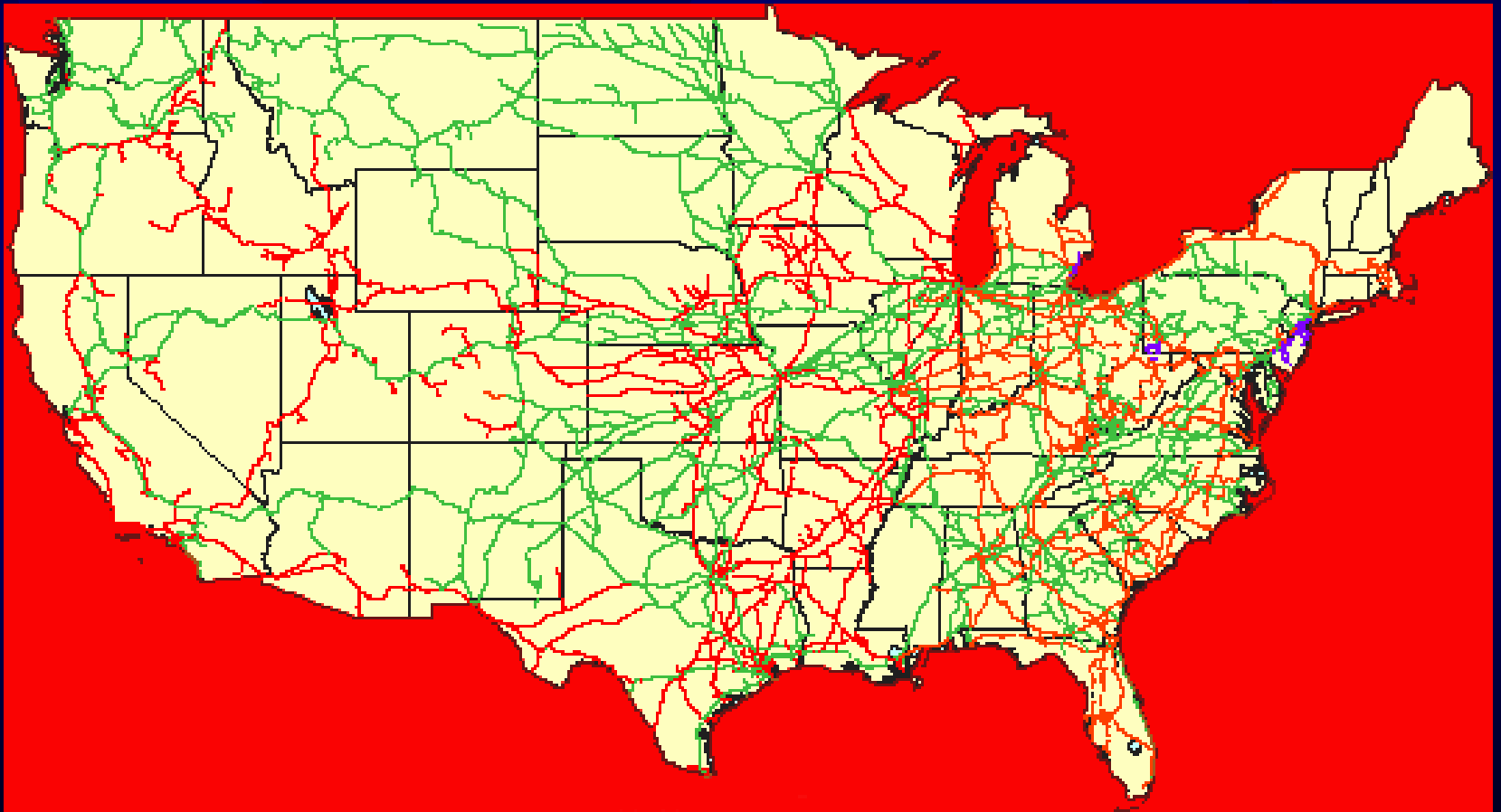
# Leverage still drives consolidation

- ▶ Marketing reach
- ▶ Cost control
  - ▶ Density
  - ▶ Equipment utilization
- ▶ Control of service delivery processes

# Consolidation will continue

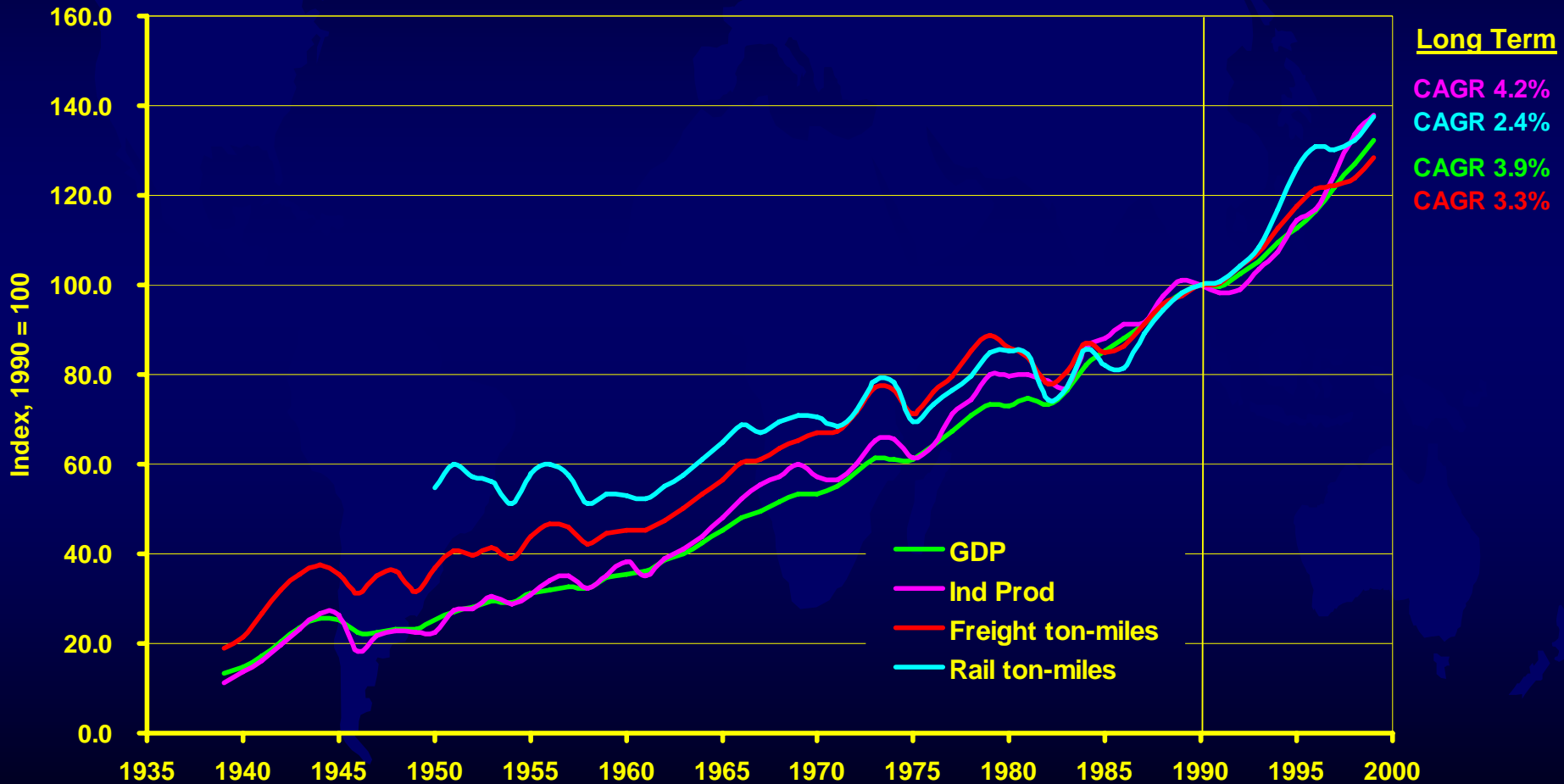
- ▶ Every major railroad involved
  - ▶ UP has recovered from SP merger
  - ▶ CSX & NS slowly recovering from CR acquisition
  - ▶ CN merger with IC was a model of planning
  - ▶ CN/WC merger up next
  - ▶ KCS looking isolated
  - ▶ CP now in play, CN interested
  - ▶ BNSF/CN still a possibility
- ▶ Likely to end with 3 transcontinentals

# The Majors might look like this



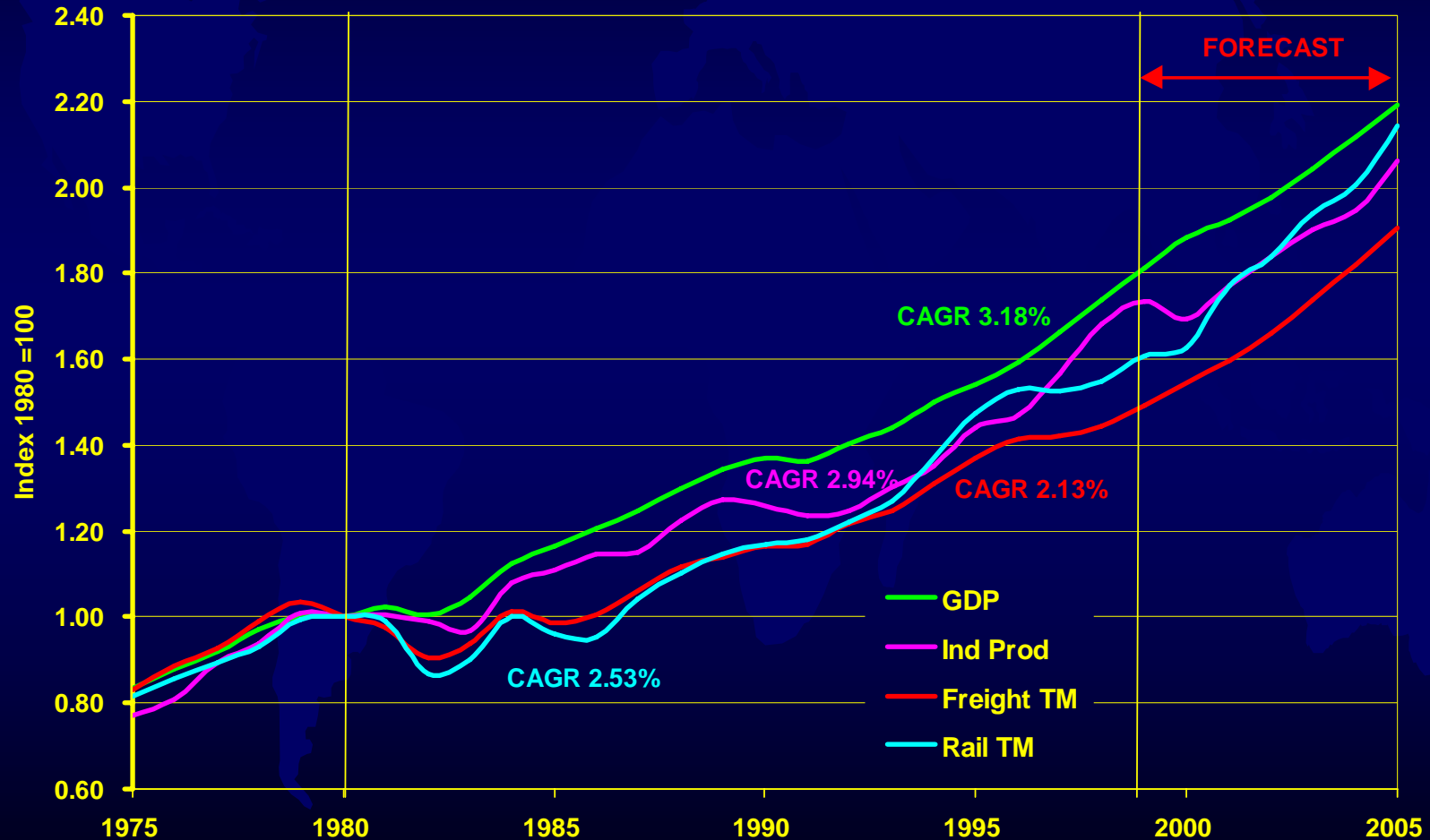
# Freight Growth Trails GDP

## Economic Growth and Freight Transport



# In the long run rail gains share

## National Economic and Transport Trends





# Investments dip then grow

## Freight Car & Locomotive Sales

