

Railroads Run on Higher Prices

Profits Rise but Industry Leaders Note Alarming Drop in Freight Volume

By Alex Roth
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Plummeting freight volumes didn't stop railroad companies from reporting healthy profits in the fourth quarter, as many managed to offset the lost volume with price increases and other measures. But top executives at several railroad companies are predicting that volume will continue to sag in the first quarter, with at least one forecasting a steeper decline than in the fourth quarter, challenging profits as the global recession deepens.

Union Pacific Corp., the second-largest U.S. railroad company by revenue, reported a 35% rise in fourth-quarter profits Thursday despite a 12% decline in carloads. Chief Executive James R. Young said that recession-related drop in carloads was "unprecedented" in his 30 years at the railroad. The company hauled less lumber for home building, fewer containers carrying retail goods from Asia and less coal for manufacturers that have reduced or halted operations.

The picture since the start of this year is even gloomier, Mr. Young told analysts and investors on a conference call. Volumes dropped 18% in the first three weeks of January, he said. The Omaha, Neb., company's auto-industry-related freight is down a staggering 60% so far this year.

Mr. Young cautioned that Union Pacific's profit would likely drop in the first quarter compared with the same period last year, assuming volumes continue to sag while fuel prices remain stable. At the end of 2008, falling fuel prices provided a revenue boost to the railroads because of a time lag between what they pay for fuel and what they charge customers in fuel surcharges.

Mr. Young added that he believed volumes will pick up, at least to some extent, as the quarter and year progress, but declined to offer a financial outlook for 2009.

"I'm having a hard time seeing the future here because there are so many variables," he said in a telephone interview. He added that the company, which operates in the western half of the country, plans to slow down its pace of expanding track capacity on some of its lines, given the economic slowdown.

In a call with analysts on Wednesday, CSX Corp. Executive Vice President Clarence W. Gooden said the company expects double-digit-percentage drops in volume in the first quarter, a sharper deterioration than the fourth quarter, when its volume fell 9%. That was the largest year-to-year quarterly volume decline since at least 1999, when the Jacksonville, Fla., company acquired a portion of Conrail Inc., a CSX spokesman said.

At CSX, net income rose more than 16% excluding losses and a one-time write-down related to its unprofitable West Virginia luxury hotel, the Greenbrier.

In recent months, CSX has furloughed 1,600 employees, while Burlington Northern Santa Fe Corp. and Union Pacific have done the same with 2,000 and 3,150 workers, respectively.

Burlington Northern on Wednesday reported that fourth-quarter profit rose 19%.

Canadian National Railway Co. on Thursday also announced a steep fourth-quarter drop in volume, with carloads declining almost 11% from the same period in 2007. Still, the Montreal company saw an 11% increase in operating income, partly because of the fuel-surcharge benefits.

At the same time, railroad executives expressed optimism that they could continue to raise prices on a significant portion of their customer base in 2009.

CSX Chief Executive Michael J. Ward told analysts on Wednesday that he is willing "in most cases" to lose customers rather than lower prices.

Critics of price increases argue that railroads hold monopoly-like powers over some customers who can't ship their freight any other way. Railroads say their prices remain cheaper than those of trucks and, adjusted for inflation, are lower than when Congress deregulated the industry 28 years ago. They also insist they must boost revenues to pay for billions of dollars in infrastructure repairs and expansion, costs the companies must shoulder on their own.