IV. State of the Industry

Only a few short years ago, with surprising unanimity, analysts and commentators were acclaiming a “rail renaissance”. Traffic volumes had recovered smartly from the 2008-09 recession. Demand exceeded capacity, railroads could raise prices, and they could be picky about what business they accepted.

Any “renaissance” was short-lived, however. Before freight volume had even recovered to pre-recession levels, the industry blew it. Massive congestion set in. Trains were parked everywhere. No crews. No space in yards and terminals. Transit times ballooned and throughput capacity plummeted. Shippers who may have wanted to commit more business to rail couldn’t. Not when even the existing traffic wasn’t moving.

Since its peak in 2014, the mess has been unscrambled. Some shippers, understandably disenchanted with their rail experience, made other arrangements. The decline of coal traffic on the nation’s railroads intensified under the dual impact of cheap natural gas and stricter regulations. More recently the sharp decline in the oil industry has cost the railroads crude oil traffic and the frac sand and drilling pipe that went with it. Even more recently we have the economic malaise in China. The typically enormous flow of containerized goods from China into the U.S. via the west coast ports of Los Angeles and Long Beach for rail movement inland has tapered off.

This container traffic, known as intermodal, has been a growth sector for the rail industry in recent years. In some periods there have even been more intermodal shipments than carload shipments. Analysts and commentators crow about it being the great growth opportunity for rail. But now it, too, is at risk. Volume has plateaued, and we can expect to see some year-over-year declines going forward.

All of these adverse influences have opened up capacity on the Class I railroads. So bad was the gridlock on the Norfolk Southern mainline between Cleveland and Chicago In 2014 that the Amtrak train I was on could not get through, and I had to be bused between Toledo and Chicago. Just this month I made a round-trip on Amtrak involving three trains in each direction, routed through Chicago. All six trains operated on time!

While this is far from a scientific sample, it is indicative of the new fluidity in the nation’s rail system due to the freight downturn. The Class I railroads have laid off thousands of workers and stored hundreds of locomotives. They are hurting for business. Historically in times like this railroads have been the most innovative. Because they had to! They had to go beyond their usual comfort zone and try things they would never dream of while fat and happy. I am hopeful we may see this again in the years just ahead.

For a traffic hungry railroad, the biggest untapped market is trucks on the highway. In recent years the railroads seemed content with their double-stack intermodal business model, as I discussed in Outreach II. This allowed them to do what they do best – move huge trains over long distances. But it lacked the speed and reliability to be truly highway-competitive and divert the massive amount of freight still being carried by trucks on the highways, especially in markets under a thousand miles.

Even though there is a vast truck freight opportunity out there, the Class I railroads had little incentive to go after it. A much more nimble business model would be needed, and they had all the business they could manage without designing a wholly new service category. That may now change. What once would have been dismissed as a distraction, now may be a necessity. The truckers have most of the freight, so the obvious challenge for the railroads is to haul the trucks. At RAIL Solution, we continue to encourage them to do so.

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