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RAIL RATES CONTINUE MULTI-YEAR DECLINE

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RAIL RATES CONTINUE MULTI-YEAR DECLINE

The Surface Transportation Board (Board) announced today that its Office of Economics, Environmental Analysis, and Administration has issued a study that measures trends in Class I railroad rates (i.e. rate trends for railroads with operating revenues of over $250 million for three consecutive years). This study, consistent with earlier assessments of railroad rates issued by staff of the Interstate Commerce Commission, the Board's predecessor agency, finds that railroad rates have continued their multi-year decline since enactment of the Staggers Rail Act of 1980 (Staggers Act), the major regulatory reform legislation affecting railroads.

The average, inflation-adjusted railroad rate declined by 46.4 percent from 1982 through 1996, and fell in each year during that period. Even without any adjustment for inflation, the (nominal) rail rate declined by 15.6 percent.

"Rate" is defined as gross revenue per ton-mile of freight originated, and is converted to constant (inflation-adjusted) 1982 dollars using the Gross Domestic Product (GDP) Implicit Price Deflator. The average rate is calculated using a "Tornqvist" index. That is, annual rate changes for fifteen rail outputs are aggregated together by weighting each by its percentage share of total rail revenue. The revenue share weights change over time, reflecting the changing railroad output mix during the period. The fifteen outputs are made up of fourteen major commodity groups and an "all other" category.

The basic finding of a significantly reduced railroad rate does not depend on the details of the measurement approach. Comparable results are obtained from indices using less aggregated data, from indices that use other definitions of "rate," such as revenue per originated car-mile or revenue per ton, and from other index number formulas such as fixed-weight indices.

Several factors have led to the continuing decline in rail rates. All commodities have shared in the overall improvement in railroad productivity. Other cost elements that have driven these significant reductions in Class I railroad revenue per ton-mile have often been commodity specific. For example, coal revenue per ton-mile decreased from 2.4 cents in 1982 to 1.7 cents in 1996 (without adjusting for inflation), in part from cost reductions resulting from an increase in average length of haul, use of heavier loading coal cars, and an increase in the use of cars owned or leased by shippers. Decreases in revenue per ton-mile for intermodal movements (4.1 cents in 1982 versus 3.3 cents in 1996 without adjusting for inflation) were related, in part, to inducements offered by railroads to shift movements to multi-car and unit train operations, most notably efficient double-stack unit train container movements.

Copies of the railroad rate study may be obtained from the Office of Economics, Environmental Analysis, and Administration, Suite 500, Surface Transportation Board, 1925 K Street, NW, Washington DC 20423-0001, telephone (202) 565-1535; from the Board's website at www.stb.dot.gov (at home page, click on “Downloadables” under the “STB Library” subtopic, then click on “Class I Railroads' Price Index”); or from the Board's Office of Public Services at (202) 565-1596.

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