Executive Summary

Christensen Associates previously issued *A Study of Competition in the U.S. Freight Railroad Industry and Analysis of Proposals that Might Enhance Competition*. That study provided an analysis of the performance of the freight railroad industry for 1987-2006. Since the release of that report, Carload Waybill Sample (CWS) data and Rail Form 1 data (R-1 data) for 2007 and 2008 have become available. This report updates Chapters 8-15 of our original report by incorporating data for these two additional years into our analysis.

Our key findings in this update are:

- The basic findings from our original study remain unchanged.

- Overall railroad rates have been steadily increasing since 2004, with a particularly steep increase in 2008. Although 2009 rate information is preliminary, it suggests that overall railroad rates decreased in that year.

- We observe that the percentage increases in revenue per ton-mile have not been uniform across commodities. In the two-year period 2007-2008, real revenue per ton-mile for the industry increased by about 12 percent, with coal and chemicals experiencing above average increases.

- Trends in input price and productivity growth are generally consistent with the pattern of rate changes. In 2007 and 2008, input prices continued to increase faster than productivity growth, resulting in unit cost increases. Increases in fuel prices have driven the input price increases.

- Railroad industry marginal cost has been increasing at a faster average annual rate than railroad revenue per ton-mile. Consequently, the measure of railroad market power has been decreasing.

- There is no consistent relationship over time between changes in the exercise of market power and changes in cost conditions. In some years, the exercise of market power in the railroad industry changed by less than what was implied by changing cost conditions, while in other years it changed by more.

- 2007 and 2008 Carload Waybill Sample data show lower shares of tons and ton-miles moving at rates exceeding 180 percent of URCS variable cost than in 2005 and 2006.

- In 2006, the industry jumped from being 92 percent revenue sufficient to being 101 percent revenue sufficient. Since 2006, the railroad industry has remained approximately revenue sufficient.

- Because the railroad industry has remained approximately revenue sufficient in recent years, we reemphasize one of our original conclusions: providing significant rate relief to some shippers will likely result in rate increases for other shippers or threaten railroad financial viability.