

2015 OUTLOOK

AAR.org/2015Outlook



ASSOCIATION OF
AMERICAN RAILROADS

2015 OUTLOOK

EXECUTIVE SUMMARY

FOR 2015, FREIGHT RAIL WILL CARRY THE ECONOMY

The U.S. economy continues to grow, and strong demand for rail service demonstrates that the freight rail industry is integral to this growth. By providing cost-effective transportation of goods, from lumber to oil to auto parts, freight rail is playing a central role in positive economic trends — including rising gross domestic product, improving employment statistics and low gasoline prices.

Freight rail is ready for this and more. In 2015, the nation's major freight railroads plan to spend an estimated \$29 billion — which would set an annual record — to build, maintain and grow the rail network. This private spending will go to expenditures like new equipment and locomotives, installation of new track and bridges, the raising of tunnels and new technology used to keep America's rail network the best in the world.

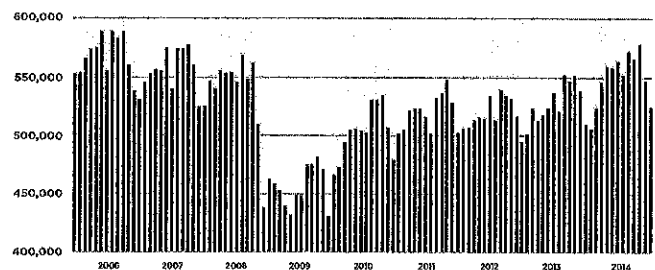
In addition, freight railroads estimate they will hire 15,000 people this year, building on hiring trends over the past five years. These are high-paying jobs being made available due to projected retirements, normal attrition as well as growth.

The combined economic impact of freight rail spending — roughly \$575 billion over the past few decades — has rippled across the country. These private investments have helped improve safety, efficiency and reliability of the nation's 140,000-mile rail network, while supporting more than 180,000 well-paying jobs at railroads nationwide. Freight railroads are providing an efficient, safe and affordable means by which U.S. products can travel to market anywhere in the country and, through ports, anywhere around the globe.

The tremendous benefits provided by private freight rail investments are only made possible by sound public policy and balanced economic regulations. As the 114th Congress begins its legislative session, and federal regulators weigh various rail regulatory proposals, it is essential that any changes to public policy still allow railroads to continue private infrastructure spending and other network investments needed to meet customer demand.

FREIGHT RAILROAD TRAFFIC VOLUME IS APPROACHING PRE-RECESSION LEVELS

Total U.S. Rail Carloads and Intermodal Traffic



America's economy is surging back to life with the help of America's freight railroads. Today, rail traffic volume is approaching pre-recession levels at the same time the industry has been experiencing shifting shipping patterns with tremendous growth in certain traffic segments. To meet these challenges, freight railroads are spending record amounts on their networks and hiring tens of thousands of new employees. In 2015 alone, America's freight railroads will spend a projected \$29 billion on capital spending and maintenance expenses and expect to hire approximately 15,000 people.

Notes: Data are average weekly carloads for each month, are not seasonally adjusted, and do not include the U.S. outflows of FOT and CP.

Source: Association of American Railroads

ASSOCIATION OF
AMERICAN RAILROADS

For example, there are rail economic policy proposals to effectively set price caps on railroads that would curb investment at just the time when rail customers are calling for expanded service to meet the demands of an ascendant economy. The rail industry's ability to transport products and commodities rests on its ability to earn the capital necessary to continue record private investments while supporting jobs across the country.

With the right federal policies in place, measures that support market pricing and do not stifle railroad investment, the world's best rail network is on track to be even better.

\$29B

America's freight railroads plan to spend an estimated \$29 billion in 2015 to maintain and modernize the rail network and equipment.

15,000

Freight railroads plan to hire an estimated 15,000 people in 2015 for jobs across the U.S.

\$575B

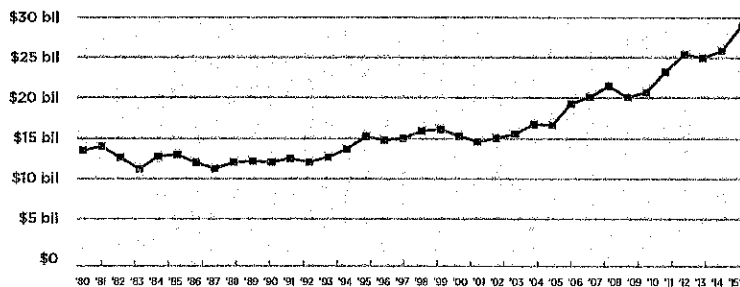
Since 1980, railroads have spent \$575 billion to build, maintain, and grow the nation's 140,000-mile freight rail network.

FREIGHT RAIL ECONOMIC OUTLOOK FOR 2015

Unlike most other modes of transportation, freight railroads operate over infrastructure they build and maintain with private funds. These private investments help sustain jobs and ensure the industry can meet growing demand to move more of what our resurgent economy needs.

FREIGHT RAILROADS HAVE SPENT \$575 BILLION ON THE RAIL NETWORK SINCE 1980

Freight Railroad Spending on Infrastructure and Equipment



Unlike trucks, barges, and airlines, privately owned freight railroads operate on infrastructure they have built and maintained with private capital. Even during the economic downturn, America's freight railroads continued to make record private investments in the rail network. In recent years, railroads have poured on average of \$25 billion a year into the nation's rail infrastructure and equipment. Since 1980, when the industry was partially deregulated, railroads have spent \$575 billion on these critical investments.

Notes: *AAR Projection

Source: Association of American Railroads



PRIVATE FREIGHT RAIL INFRASTRUCTURE SPENDING POWERS OUR ECONOMY

2015 is shaping up as another record year for the freight rail industry in terms of network capital and maintenance spending on infrastructure and equipment around the country. Freight railroads plan to spend an estimated \$29 billion to build, maintain and grow the nationwide freight rail network that powers the U.S. economy.

That works out to more than \$79 million each day — or \$3 million each hour — spent on things like safety and capacity enhancing infrastructure, new equipment and technology.

All told, America's freight rail industry has spent \$575 billion in private funds, since being partially deregulated in 1980, to maintain and upgrade the nation's 140,000-mile freight rail network.

Railroads are spending their private dollars on things like new or upgraded track infrastructure, as well as new locomotives and freight cars

needed to meet growing demand for additional rail capacity. Railroads also are improving their network performance during periods of extreme weather.

FREIGHT RAILROADS ARE HIRING

Building upon steady hiring over the past few years, railroads in 2015 plan to hire 15,000 men and women for well-paying jobs across the country. These jobs are being made available due to forecasted retirements, normal attrition, as well as some traffic growth. Overall, the major Class I freight railroads had 8,000 more employees at the end of 2014 compared with the year before, a net increase of 4.9 percent, to more than 170,000 employees.

These people will join the ranks of an industry in which employee compensation, including benefits, averages \$109,700 per year, among the highest of any industry.

Veterans are an important focus of railroad hiring. Nearly 25 percent of current rail employees are U.S. veterans, and an estimated one in five new hires will be former members of the U.S. military. This trend reaches back to the very formation of railroads in America, as they have learned that veterans have the right qualities, capabilities and discipline that makes them well-suited to helping keep freight railroads efficient and safe.

RAIL TRAFFIC GROWTH REFLECTS CHANGING ECONOMY

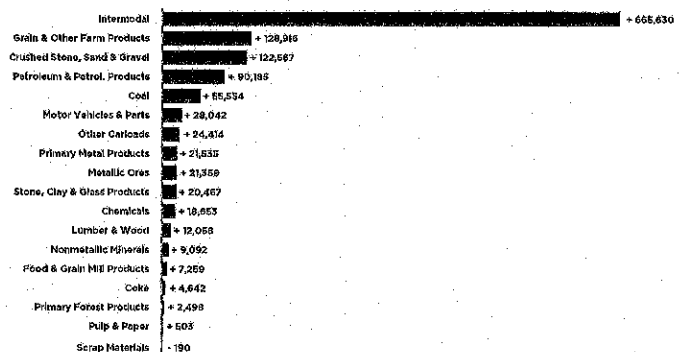
The new hiring and record investments planned for 2015 come on the heels of a year in which America's railroads are nearing pre-recession traffic levels, the highest since 2007.

Business production and consumer demand are increasing, and rail is playing an important role in getting American goods to market, both domestically and internationally. As the year-end results for 2014 indicate, freight rail is transporting more of many different commodities, as rail traffic patterns have shifted along with our changing economy.

The rail industry is an indicator of the health of the economy at large. From energy products, to consumer goods to agricultural commodities — railroads are continuing to move what helps power our recovering economy.

DEMAND FOR U.S. FREIGHT RAIL SERVICE HAS SURGED IN 2014

U.S. Freight Rail Traffic Growth 2014 vs. 2013*



In 2014, America's freight railroads experienced a surge in demand for rail service across multiple industrial sectors. Thanks to a variety of factors including a record grain crop in 2013, increased demand for coal to generate electricity, and better general economic conditions, railroads saw a 4.5 percent increase in carload and intermodal traffic in 2014 compared with 2013. This surge in traffic was largely unexpected, but railroads are striving to meet this increased demand through infrastructure investment and hiring.

Notes: *Figures are carloads except intermodal, which is containers and trailers. Data exclude the U.S. operations of CN and CP.

Source: Association of American Railroads, Weekly Railroad Traffic



Rail traffic figures for the year provide a telling snapshot. In fact, 18 of the 20 commodity categories tracked by the Association of American Railroads (AAR) showed year-over-year increases in 2014. Another exciting indicator of overall economic growth is the meteoric rise in U.S. rail intermodal, the containers and trailer traffic that can travel by truck, rail or both.

The nation's rail network experienced this shift in traffic volumes in a relatively short period of time. The rapid change in customer demand to move more of different products is something neither railroads nor their customers fully anticipated. The industry is adapting and responding, working hard to remedy any service challenges, and is dedicated to providing the high level of service our customers expect and demand.

\$575B

Balanced regulations have allowed railroads to spend \$575 billion on rail infrastructure and equipment since 1980, so taxpayers don't have to.

\$5.2B

Freight railroads have spent \$5.2 billion so far on Positive Train Control implementation.

↓ 42%

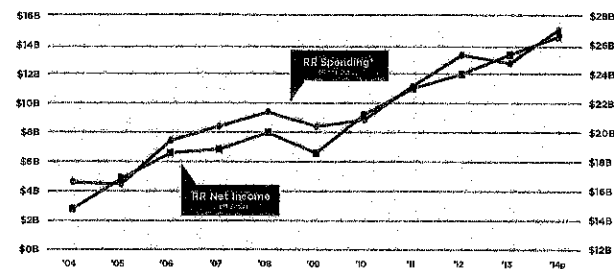
Average rail rates are now 42 percent since 1980 when railroads were partially deregulated.

FREIGHT RAIL POLICY OUTLOOK FOR 2015

Private freight rail infrastructure spending and jobs are made possible thanks to balanced regulations and public policies that allow freight railroads to remain almost entirely self-sufficient. Whether they are economic regulations, safety and operational requirements, or changes to the U.S. tax code, there are important policies to note that could impact freight railroads in 2015.

RAILROAD PROFITABILITY ENABLES INCREASED SPENDING

Railroad Net Income Correlates to Railroad Spending on Capital and Maintenance Expenditures



Unlike trucks, barges, and airlines, America's privately owned freight railroads operate almost exclusively on infrastructure they own, build, and maintain themselves. In recent years, freight railroads have been spending more than ever before — including an estimated \$29 billion in 2015 — to meet increased demand for rail service and prepare for future growth. Preserving the industry's profitability through a balanced regulatory structure ensures railroads can spend what they need to keep their networks in top condition.

Notes: *Dollars in billions unless otherwise specified.
Data as of October 1, 2014.
†Preliminary.
Source: Association of American Railroads.



ECONOMIC REGULATIONS

At the top of the freight rail industry's policy concerns is a push by some rail shipper groups to obtain price caps and force changes to rail operations through new regulations. Other proposals would vastly expand the role of government in the day-to-day running of railroads and curb railroads' ability to earn revenue needed to sustain needed infrastructure spending.

While seeking increased regulation and government intervention, these rail customers are simultaneously laying the charge that railroads are not investing enough to meet the increased demand for rail service and to improve network efficiency. Shippers cannot have it both ways. The U.S. rail network survives and grows overwhelmingly on private investment — its own.

Imposing price caps, rather than letting the marketplace work, will mean that railroads have less revenue to spend on

essential infrastructure improvements at exactly the wrong time — when there is an increased demand to move more to power the recovering economy.

The current economic regulatory structure works, providing multiple avenues for shippers to seek regulatory review of concerns, while giving railroads the opportunity to earn revenue needed to spend and reinvest in the network. The current economic regulatory framework also provides an environment in which rail companies — rather than U.S. taxpayers — foot the bill for the maintenance and upkeep of the coast-to-coast rails that industries rely upon. A healthy freight rail industry is vital to the nation's economic recovery and growth. Continuing today's balanced regulation is essential for a robust freight rail network in 2015 and beyond.

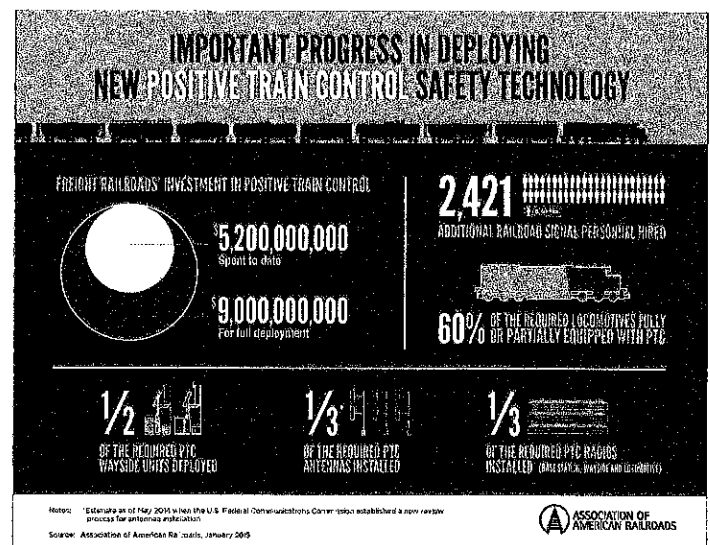
OPERATING AND SAFETY REGULATIONS

Railroads are committed to safety and strive to make a safe rail industry even safer. There are several areas of safety regulation that will impact railroads in the year ahead.

Positive Train Control

Railroads are making Herculean efforts to implement nationwide interoperable Positive Train Control (PTC) across an already safe nationwide rail network. PTC technology, required by Congress in 2008 to be installed on freight lines with passenger rail or certain types of hazmat, is designed to automatically stop or slow a train before certain types of incidents occur.

While the industry has spent \$5 billion so far to implement the technology, there have been challenges that will make meeting a statutory year-end 2015 deadline for nationwide, interoperable PTC not possible. Those have included technical challenges, as PTC is not an off-the-shelf system, as well as hurdles presented by uncoordinated regulations from multiple federal agencies.



The challenges that railroads have faced implementing PTC will mean they will not meet the statutory deadline. Therefore, Congress should provide a reasonable and responsible extension to the end-of-year deadline for deploying the safety system. An adjusted deadline would give railroads the time needed to install, test and approve PTC, as well as to train thousands of employees on the use of this complex technology. It is vital that deployment of the PTC system should not occur until it can be installed and tested with full and complete success.

Hazmat Regulations

Railroads have a tremendous safety record for moving hazardous materials. In fact, 99.997 percent of all rail hazmat shipments reach their destination without a release caused by a train accident.

In 2015, the federal government is expected to finalize regulations that would increase the safety of moving hazardous materials by rail, including federal tank car standards and rail operating rules for trains carrying certain hazmat including crude oil and ethanol. Freight railroads have long supported increasing the federal standards for tank cars, and support cars with increased shell thickness, jacket protection, thermal protection, full-height head shields, high-capacity pressure relief devices, as well as bottom-outlet handle protection and top-fittings protection.

In early 2014, the freight rail industry entered into a voluntary agreement with Department of Transportation Secretary Foxx to implement certain operating restrictions around the movement of crude oil by rail. These include: reduced speeds for crude oil trains across the entire network; even slower speeds through Department of Homeland Security-designated High Threat Urban Areas; increased track inspections and trackside safety technology; enhanced braking systems; special routing considerations for crude oil; stepped-up emergency response capability planning and training, and specialized crude-by-rail training for first responders across the country.

Crew Size Regulations

All major Class I freight railroads in the U.S. currently operate with two-person crews on mainline train operations. However, the Federal Railroad Administration is seeking to mandate two-person crews, despite a complete lack of data to support such a regulation.

In 2015, the industry will continue to press regulators to allow railroad companies the ability to determine the appropriate crew size — either one or two crew members — for any given train, without mandates.

Railroads have said they need the flexibility to use one-person crews where PTC will be in use, as they believe that once PTC is implemented there will be adequate safety redundancies allowing for maximum crew flexibility.

Railroads will continue to address crew size through the national labor bargaining process, as it has done for more than a century.

STREAMLINED INFRASTRUCTURE PROJECT PERMITTING

In order to improve and expand freight rail capacity, the industry must upgrade its private infrastructure where it is needed most. However, there are often duplicative and burdensome permitting requirements that can inhibit rail companies from meeting shipper demands.

As a result, a priority for the rail industry in 2015 is pressing lawmakers for more efficient permitting processes that allow timely investment of private rail resources into U.S. infrastructure projects. Policymakers can improve the movement of freight and alleviate cumbersome red-tape.

For example, policymakers can take steps to shorten review time of rail expansion projects, while not diminishing the quality of those reviews, by providing concurrent agency reviews, reasonable timelines and establishing one agency to lead the federal review process, much as it did for highway and transit projects in previous surface transportation reauthorization legislation such as the Moving Ahead for Progress in the 21st Century Act (MAP-21).

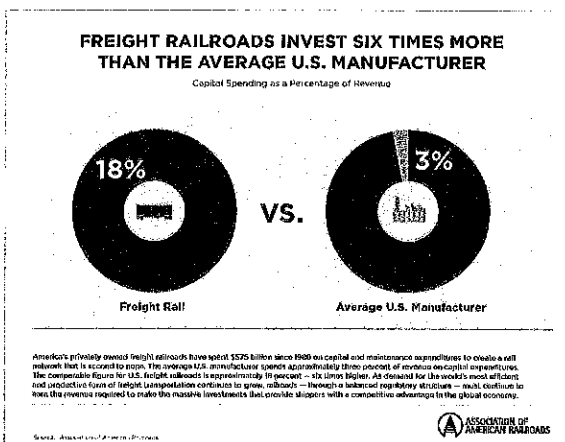
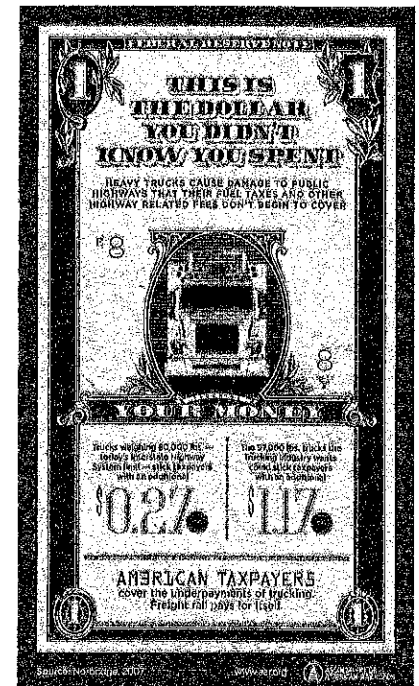
MAINTAINING FEDERAL TRUCK SIZE AND WEIGHT LIMITS

The freight rail industry in 2015 will fight any attempt to increase existing truck size and weight limits. Larger and heavier trucks mean more gridlock, greater environmental damage and higher taxpayer costs to repair damage to highways and bridges.

This issue underscores an important difference between freight trains and trucks: both are essential for moving American goods and services, but freight rail and its vast coast-to-coast network is funded by private capital. Taxpayers must foot the bill to maintain and upgrade highways.

Diverting freight from rail to larger trucks would result in increased wear and tear to the nation's already-strained highways, foisting greater repair costs on taxpayers. Doing so would also mean less revenue for railroads to reinvest in their networks, potentially resulting in reduced rail capacity just as the nation is regaining its economic footing and demanding more rail service. At a time when policymakers are struggling to find ways to keep highway funding flowing, increasing federal truck size and weight limits would further damage our roads and bridges.

This shift of freight to larger trucks also has a stark environmental downside. Because railroads are on average four times more fuel efficient than trucks, more trucks on the road would increase fuel consumption by millions of gallons per year and increase greenhouse gas emissions.



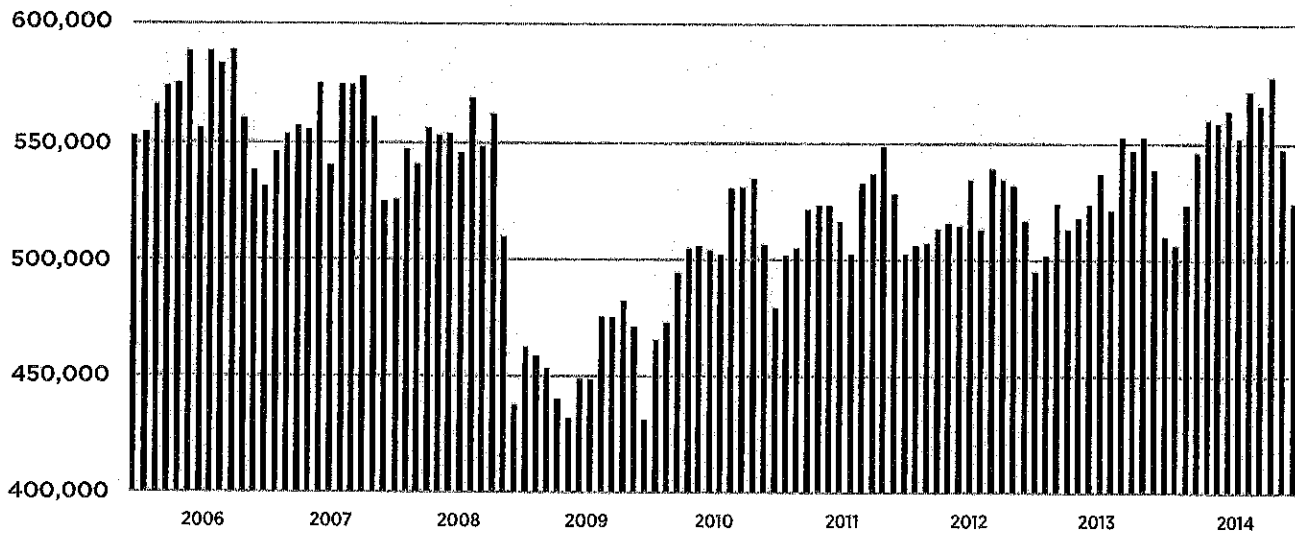
TAX REFORMS TO PROMOTE INVESTMENT AND COMPETITION

The freight rail industry has joined other U.S. industries in urging a revamped and simpler tax system that promotes economic growth. The rail industry will press Congress for tax reforms that eliminate the uncompetitive nature of the current tax code. Congress should take steps to reduce the tax rates and incentivize capital investments.

In addition, the freight rail industry will support continuation of the short line tax credit. This incentive was originally enacted in 2005 to spur infrastructure investment by hundreds of short line and regional railroads, which provide the essential link between thousands of facilities and the national rail system. The credit expired at the end of 2014, and should be extended so that short line and regional railroads can continue to serve their customers efficiently and maximize infrastructure investments. Because of this tax credit, short line railroads have invested heavily back into their networks through new track and equipment.

FREIGHT RAILROAD TRAFFIC VOLUME IS APPROACHING PRE-RECESSION LEVELS

Total U.S. Rail Carloads and Intermodal Traffic



America's economy is surging back to life with the help of America's freight railroads. Today, rail traffic volume is approaching pre-recession levels at the same time the industry has been experiencing shifting shipping patterns with tremendous growth in certain traffic segments. To meet these challenges, freight railroads are spending record amounts on their networks and hiring tens of thousands of new employees. In 2015 alone, America's freight railroads will spend a projected \$29 billion on capital spending and maintenance expenses and expect to hire approximately 15,000 people.

Notes: Data are average weekly originations for each month, are not seasonally adjusted, and do not include the U.S. operations of CN and CP.

Source: Association of American Railroads

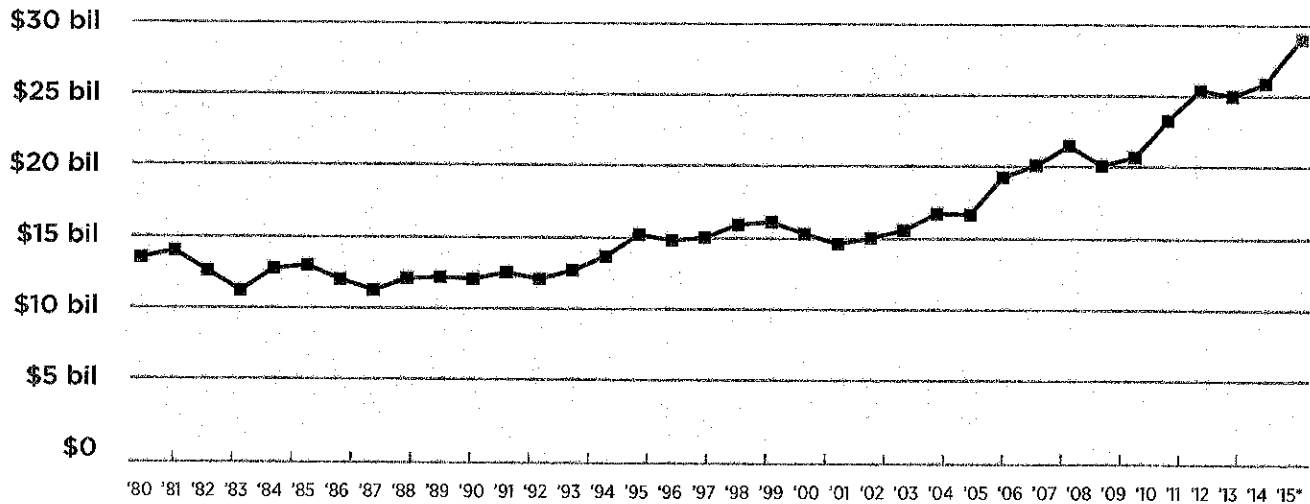


See Page 2

APPENDIX

FREIGHT RAILROADS HAVE SPENT \$575 BILLION ON THE RAIL NETWORK SINCE 1980

Freight Railroad Spending on Infrastructure and Equipment



Unlike trucks, barges, and airlines, privately owned freight railroads operate on infrastructure they have built and maintained with private capital. Even during the economic downturn, America's freight railroads continued to make record private investments in the rail network. In recent years, railroads have poured an average of \$25 billion a year into the nation's rail infrastructure and equipment. Since 1980, when the industry was partially deregulated, railroads have spent \$575 billion on these critical investments.

Notes: *AAR Projection

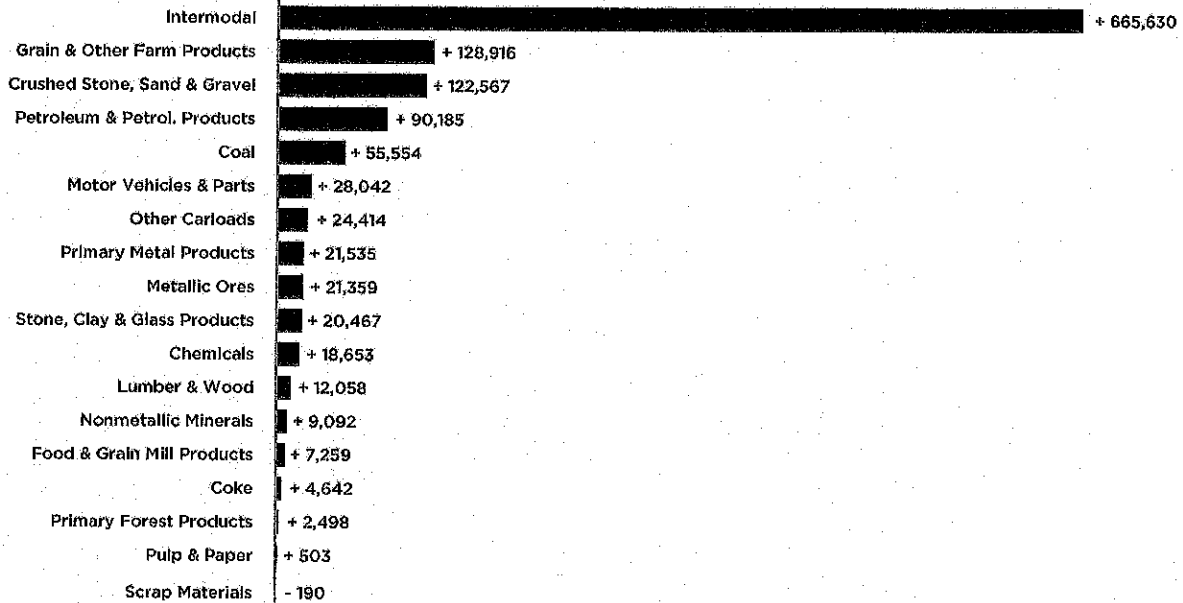
Source: Association of American Railroads



See Page 3

DEMAND FOR U.S. FREIGHT RAIL SERVICE HAS SURGED IN 2014

U.S. Freight Rail Traffic Growth 2014 vs. 2013*



In 2014, America's freight railroads experienced a surge in demand for rail service across multiple industrial sectors. Thanks to a variety of factors including a record grain crop in 2013, increased demand for coal to generate electricity, and better general economic conditions, railroads saw a 4.5 percent increase in carload and intermodal traffic in 2014 compared with 2013. This surge in traffic was largely unexpected, but railroads are striving to meet this increased demand through infrastructure investment and hiring.

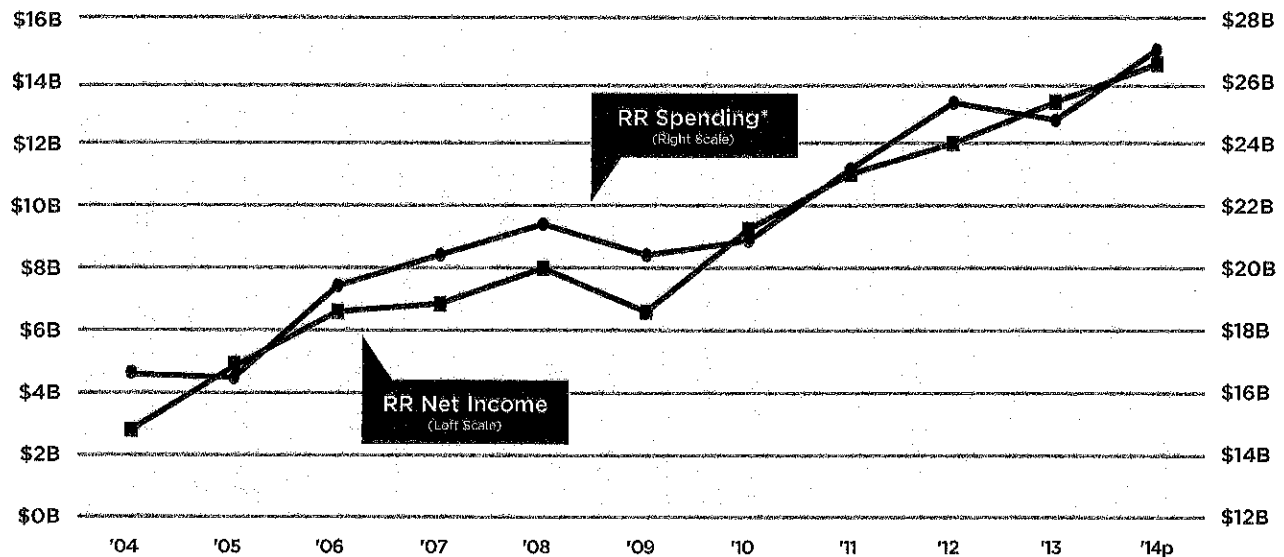
Notes: *Figures are carloads except intermodal, which is containers and trailers. Data exclude the U.S. operations of CN and CP.

Source: Association of American Railroads, Weekly Railroad Traffic



RAILROAD PROFITABILITY ENABLES INCREASED SPENDING

Railroad Net Income Correlates to Railroad Spending on Capital and Maintenance Expenditures



Unlike trucks, barges, and airlines, America's privately owned freight railroads operate almost exclusively on infrastructure they own, build, and maintain themselves. In recent years, freight railroads have been spending more than ever before – including an estimated \$29 billion in 2015 – to meet increased demand for rail service and prepare for future growth. Preserving the industry's profitability through a balanced regulatory structure ensures railroads can spend what they need to keep their networks in top condition.

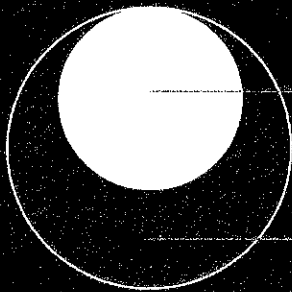
Notes: *Capital spending plus maintenance expenses
Data are for Class I railroads
p – preliminary
Source: Association of American Railroads



See Page 5

IMPORTANT PROGRESS IN DEPLOYING NEW POSITIVE TRAIN CONTROL SAFETY TECHNOLOGY

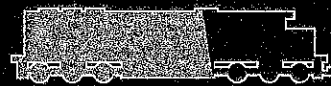
FREIGHT RAILROADS' INVESTMENT IN POSITIVE TRAIN CONTROL



\$5,200,000,000
Spent to date

\$9,000,000,000
For full deployment

2,421 
ADDITIONAL RAILROAD SIGNAL PERSONNEL HIRED



60% OF THE REQUIRED LOCOMOTIVES FULLY
OR PARTIALLY EQUIPPED WITH PTC

1/2 
OF THE REQUIRED PTC
WAYSIDE UNITS DEPLOYED

1/3* 
OF THE REQUIRED PTC
ANTENNAS INSTALLED

1/3 
OF THE REQUIRED PTC RADIOS
INSTALLED (BASE STATION, WAYSIDE AND LOCOMOTIVE)

Notes: *Estimate as of May 2014 when the U.S. Federal Communications Commission established a new review process for antennae installation.

Source: Association of American Railroads, January 2015



See Page 6

FEDERAL RESERVE NOTE

1

THIS IS THE DOLLAR YOU DIDN'T KNOW YOU SPENT

HEAVY TRUCKS CAUSE DAMAGE TO PUBLIC HIGHWAYS THAT THEIR FUEL TAXES AND OTHER HIGHWAY RELATED FEES DON'T BEGIN TO COVER

E 8

8

YOUR MONEY

Trucks weighing 80,000 lbs. -- today's Interstate Highway System limit -- stick taxpayers with an additional	The 97,000 lbs. trucks the trucking industry wants could stick taxpayers with an additional
\$0.27 (GAL)	\$1.17 (GAL)

AMERICAN TAXPAYERS cover the underpayments of trucking. Freight rail pays for itself.

Source: Norbridge, 2007

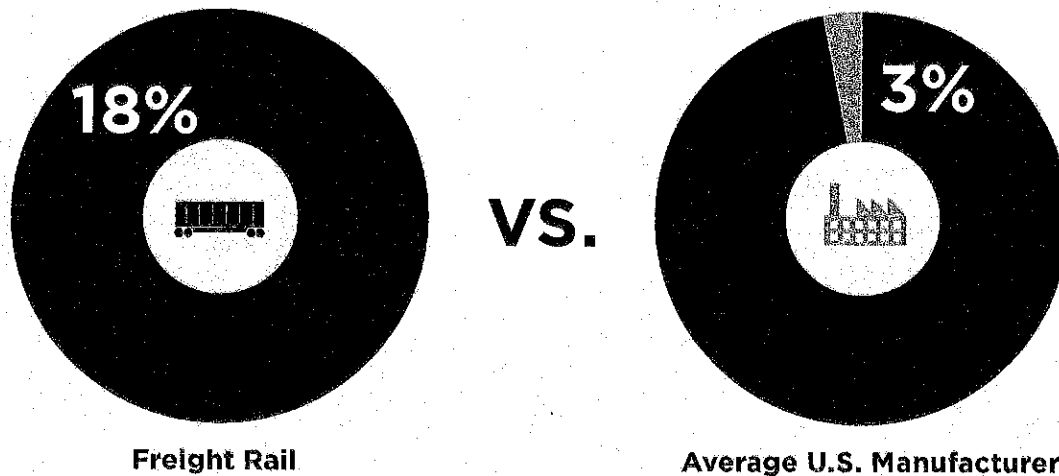
www.aar.org

ASSOCIATION OF AMERICAN RAILROADS

See Page 7

FREIGHT RAILROADS INVEST SIX TIMES MORE THAN THE AVERAGE U.S. MANUFACTURER

Capital Spending as a Percentage of Revenue



America's privately owned freight railroads have spent \$575 billion since 1980 on capital and maintenance expenditures to create a rail network that is second to none. The average U.S. manufacturer spends approximately three percent of revenue on capital expenditures. The comparable figure for U.S. freight railroads is approximately 18 percent — six times higher. As demand for the world's most efficient and productive form of freight transportation continues to grow, railroads — through a balanced regulatory structure — must continue to earn the revenue required to make the massive investments that provide shippers with a competitive advantage in the global economy.

Source: Association of American Railroads



See Page 7

2015 OUTLOOK

To view online, visit AAR.org/2015Outlook.

About the Association of American Railroads

The Association of American Railroads (AAR) is the world's leading railroad policy, research and technology organization focusing on the safety and productivity of rail carriers. AAR members include the major freight railroads of the U.S., Canada and Mexico, as well as Amtrak. Learn more at www.aar.org. Follow us on Twitter: AAR_FreightRail or Facebook: www.facebook.com/freightrail.

