

City analysts are becoming more gloomy about the rail industry, as the downturn continues to cause uncertainty.

This week we report the view of one city observer, who says: 'It would appear that passenger journey growth at CrossCountry has stopped or gone into reverse — they don't tell us this, but you can assume it — and that is going to be repeated at other train operating companies, probably across the board.'

This is, as the speaker admits, an assumption — actually several of them.

Certainly eyebrows were raised on Wednesday when the Arriva Group Chairman mentioned that 'cap and collar' kicks support in, so far as CrossCountry is concerned, in 2011, and shares moved down in response.

In happier times, of course, cap and collar also means that the DfT takes a share of any excess. At the moment the latter doesn't look very likely, but 2011 is some time away, and there have also been some tentative suggestions that the recession, as a global phenomenon, could already be starting to bottom out.

But while we continue to gaze into whatever crystal ball we happen to favour, the TOCs are taking measures to minimise the damage now.

This is no more than the prudent response of any business which intends to stay in business, but train operators are distinctly constrained, partly because they must continue to provide the services specified in their franchise agreements, and also because large segments of their revenues come from regulated fares.

These fares are pinned to inflation, and at least one MD has already suggested that the probability of deflation could mean fare reductions in 2010.

As things stand, the DfT is resolutely resisting any suggestion that franchises should be amended to help operators cope. The trains will run, and the premiums/subsidies will be paid, or you give the keys back.

This all amounts to a straitjacket for the train operators. They can't reduce services and neither, in many cases, can they increase their fares. Their obligations to the DfT also appear to be fixed. These include not only premiums (in many cases) but also franchise commitments to invest in such things as rolling stock refurbishment and station upgrades.

It is hardly surprising, then, that jobs have been culled and that unregulated fares are being increased where this appears to be something the market will bear: there is not much else that can be done.

Thus we learn that National Express East Coast is increasing some of its unregulated fares by as much as 11%, and that there are lesser increases on First Great Western. Job reductions, of course, have already been reported.

But even if some operators are already signalling that they are facing problems, can we extrapolate this 'across the board' quite as glibly as the analyst we have quoted?

Among the several assumptions is one that all train companies have the same customer base. In reality, that ain't necessarily so.

Intercity has made some of its money for many years by catering for premium passengers, and it is well said that the business traveller who pays £250 for a journey to Manchester is making it possible for a number of other people to travel for only a tenth as much.

But in hard times First class travel tends to be a casualty, and there are now signs of widespread downgrading.

This is eroding the revenue of intercity operators where it really hurts, because in normal times First Class passengers are very profitable.

By comparison, commuter operators offer at most a very modest version of First Class (which also forms only a small proportion of their trains). Downgrading on these services is presumably a minor issue.

Indeed, it does seem that although their passenger growth may have moderated, commuter operators are not feeling the pinch nearly so much.

More than two out of three passengers (68%) travel with London and South East operators.

In other words, even if intercity travel is temporarily reduced to tatters, as it only represents about 9% of passenger journeys perhaps its potential for affecting total rail use is limited.

That's one measurement, anyway. However, intercity represents 34% of passenger kms and earns 36% of the industry's revenue.

So we can't (and of course should not) write off intercity. But we do suggest that the risk is greatest in the long-distance sector. If there are casualties, expect them there. ●

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