

Railroads' Future Rests Upon Rates And Volume

Carriers Improved Financial Position During War Period

BY ROGER W. BABSON, Copyright 1946, Publishers Financial Bureau, Inc.

Babson Park, Mass., April 12.—War came to the rescue of the railroads. The decline in traffic and earnings which had persisted since the 30's ceased. Volume of traffic and net income reached new peaks. However, the real worth of rail securities must be judged, not on past, but on future, performance. Several things must be considered when making a decision on railroad earning power—volume of traffic, operating expenses, taxes, bond interest and rate charges.

Traffic Outlook. Volume of freight traffic varies in proportion to business activity. Before the war, their competitors (trucks, automobiles, pipe lines, shipping and airplanes) had cut into the railroads' revenues. However, the war helped the railroads and hurt the other carriers. The railroads, moreover, need no time to adjust themselves to peacetime operations, pent-up demand for goods, with the greatest cash reserves in many years, should insure good business activity and thus a large volume of freight. Passenger traffic should also be good for a while in spite of auto and air competition.

The Federal Reserve Board's index of industrial production shows an increase from 119 in 1929 to 171 in 1941. In line with these increases, railway freight traffic jumped to a new prewar peak in 1941 with an increase of 25 billion ton-miles carried over those of 1929. It certainly seems that the railroads could count upon at least their prewar gross traffic which gave them \$500,000,000 net in 1941.

The Department of Commerce estimates a "gross national product" of \$150,000,000,000 for 1947. This could produce an increase in railroad gross earnings over 1941 of five per cent for 1947. This is especially interesting when we note that the 1944 figure for our gross national product was \$105,000,000,000. Thus we can get a five per cent increase in railroad earnings even with a decline of \$45,000,000,000 in total national income. Projections, therefore, point to a greater volume of railway traffic during the next few years than in the peak peacetime year of 1941.

Higher Costs Inevitable. We must, however, remember that there has been a 20 per cent increase in wages since 1941 which will absorb \$300,000,000 in 1947. A price rise in items essential to the railroads, such as lumber, steel and coal, will add to the increased costs due to wages. The greater operating efficiency attained during the war carried over into peacetime economy should help

overcome the wage increase granted between 1941 and 1946, amounting to 20 per cent. We must ask ourselves, however, how much more wages will be increased during the next year or two.

Fixed Charges Lower. We find that the \$500,000,000 net income of 1941 with the wage and price increases which will have occurred since that date will be highly inadequate to meet 1947 operating expenses. If railroad net income is to be maintained, business activity must remain well above the 1941 level and an increase in rates will be needed in addition. Whether the public is in a mood to accept such a rate increase is anybody's guess.

The railroads are in a much stronger position now than in pre-war years, since they have used \$2,500,000,000 of their war earnings to decrease their debt. Consequently, their fixed charges have perhaps declined \$200,000,000 a year. They have also increased their net working capital from a 1941 level of \$300,000,000 to \$2,000,000,000 in 1941.

Conclusion. It is evident that railroad net earnings will hinge on both higher rates and an expanded volume of traffic. If the next several years favor both these factors, railroad net income should remain fairly good. However, is it smart to bet on the possibility of both higher rates and a high volume of traffic when railroad securities are now selling so comparatively high?

AROUND TOWN

TO CONVENTION Mr. and Mrs. R. H. Wilson are to attend the first postwar sales convention in Cleveland, Ohio, next week of the Iron Fireman Manufacturing Company, it is learned. The meeting is to be held Monday, Tuesday and Wednesday. The Wilson Electric Company has been sales representatives for this heating appliance for many years.

OIL STOVE FIRE An oil stove at Rock Tavern, on the Lenoir highway, caught fire at 8:30 o'clock last night, calling firemen to the scene. No damage was reported by William Eram, assistant fire chief.

SPEEDING CASE Matthew Herman Hunt, colored, was tried in police court today for speeding. He was fined five dollars and costs.

FINAL CUB MEET. The third and final session of the Cub Scout training program for leaders and Scouters will be held Monday evening at 8 o'clock at the First Methodist church. It was announced today. A film showing a Cub pack putting on a circus will be presented, it was stated.

Committees Say Everything Ready For Senior Play

Committee for the Henderson high school Senior play "Thamson Dugible" today announced that everything is in readiness for the performance tonight at 8 o'clock in the high school auditorium.

Miss Clyde Hunter and Miss Sarah Grey, sponsors of the play, reported to be filled with mystery and comedy.

Members of the class who have served on committees are as follows: Stage — Dwight Moxley, William Lassiter, Leslie M. Lenoir, Tully Perdue, Brooks Langston and Robert Isley.

Properties — Charles Snow, Bettie Wilson, Selbie Thompson, Eleanor Miller and Mary Lou Duke.

Make-up — Ruby Hoyle and Susie Dunn.

Prompter — Janet Bachman.

Program — Caroline Lenoir, Ruth Parks, Dot Ramey, Lucille Harris, Maurine Harris, Jewel Lenoir.

Tickets — Bobby H. Lenoir, Charles Snow, Sam Owen, Doris Baker, Fred Hair, Walter Bassant and Robert Isley.

Publicity — Ruth Dennis, Helen Knight, Susie Dunn, Eleanor Miller and Marguerite Prescott.

JAIL SELLS FOR JUNK

Chicago—The suburb of Winthrop has sold its jail, a three-room building which hadn't had an occupant for three years and finally Elmer Knowles, a farmer, bought it as junk for \$20 and obtained from it 1,500 pounds of doors, bars, and frames.

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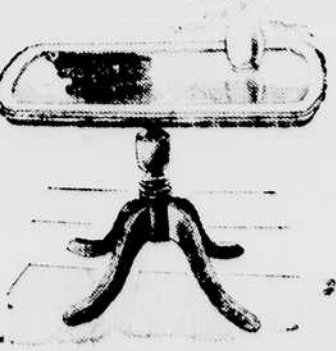
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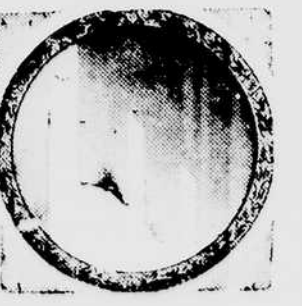
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