

January 2009

Rail passenger use and the Economy

Introduction

This short briefing paper looks at the relationship between the UK economy and the impact on rail passenger use.

For the first time since rail privatisation the UK is in recession.

This paper therefore looks at the effect of previous recessions on passenger use the rail industry, and looks ahead to the impact that recession might have upon the privatised rail industry.

Looking at data for the last twenty-one years (1987-2008), we found some correlation between the rates of growth in UK GDP and in rail passenger use. For example:

- At the height of the 'Lawson boom', rail passenger growth was over 8% - the highest rate in the period under study;
- When the economy went into recession in the early 1990s, rail passenger use also declined;
- Rail passenger use has grown consistently every year since the mid-1990s, coinciding with the period of sustained GDP growth under the final Major years and New Labour.

The data

Table 1 (below) shows the growth in both the economy and in rail passenger growth in each of the past twenty-one years.

Table 1

Year	GDP growth	Rail passenger journeys (millions)	Passenger growth
1986/87	4	738	
1987/88	6	798	8.13
1988/89	2.9	822	3.01
1989/90	1.7	812	-1.22
1990/91	-1.2	810	-0.25
1991/92	-0.6	792	-2.22
1992/93	1.5	770	-2.78
1993/94	3.2	740	-3.90
1994/95	4	735	-0.68
1995/96	3.1	761	3.54
1996/97	2.7	801	5.26
1997/98	3.9	846	5.62
1998/99	3	892	5.44
1999/00	4.4	931	4.37
2000/01	3	957	2.79

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2001/02	1.8	960	0.31
2002/03	2.3	976	1.67
2003/04	3.1	1012	3.69
2004/05	2.2	1045	3.26
2005/06	2.7	1082	3.54
2006/07	2.9	1151	6.38
2007/08	2.4	1232	7.04

There is not a perfect correlation between rail passenger use and GDP growth as of course there are other variables, which may include rail investment levels, rail performance (e.g. punctuality, cancellations), and the relative costs between rail and other alternatives.

Charts 1 and 2 (below) show a clear correlation between rail passenger use and the economy. We therefore believe economic performance to have been the central determinant in rail passenger growth in this period.

Chart 1

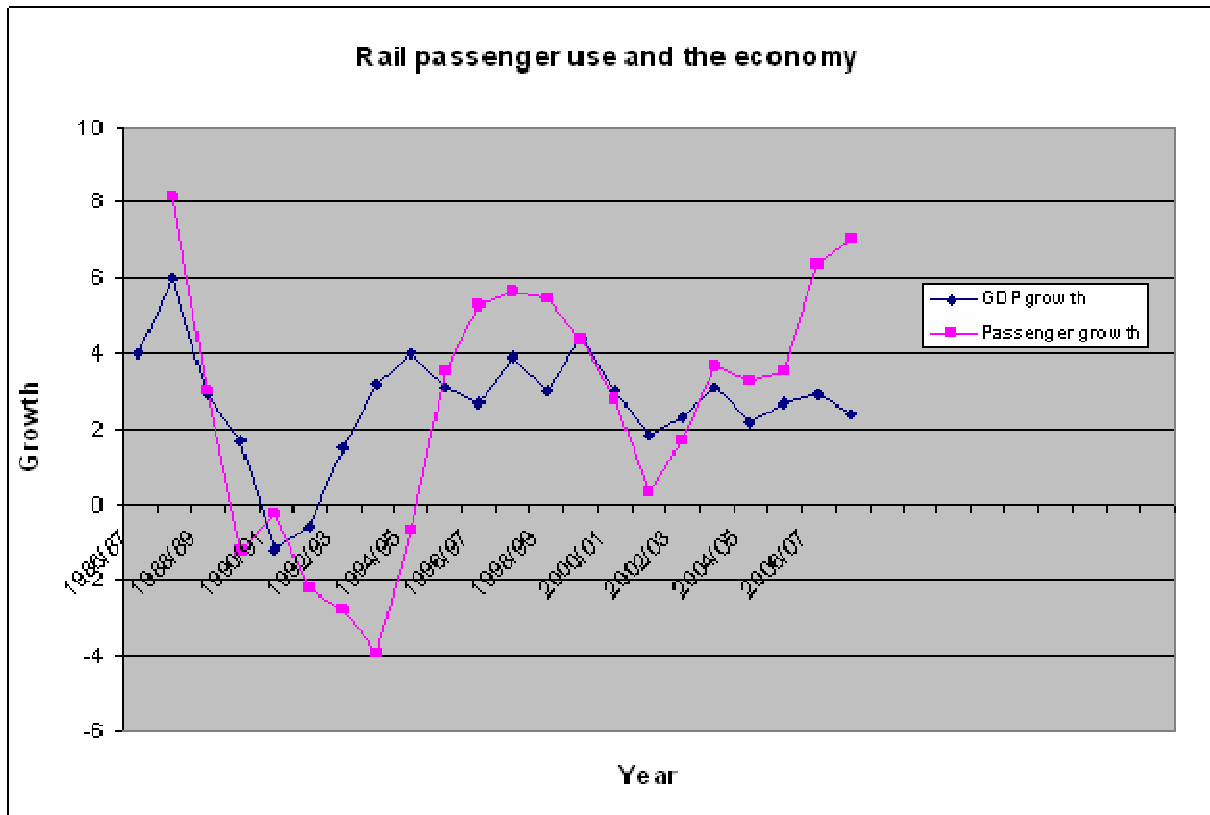
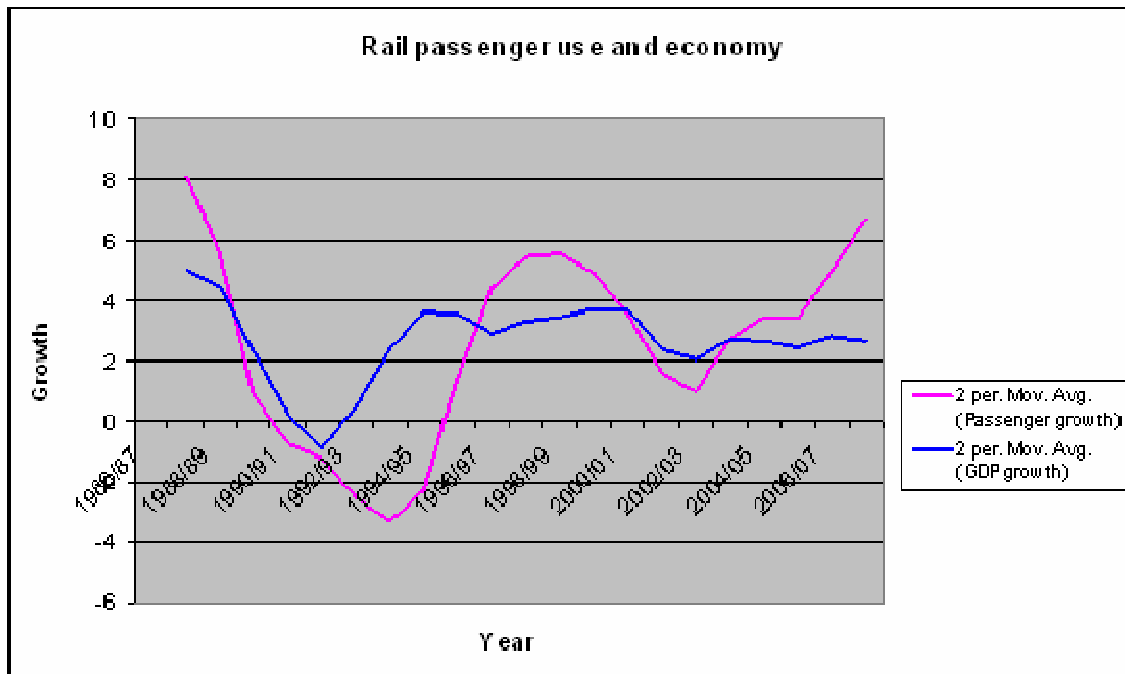


Chart 2



Looking to the future

As the blue line (GDP growth) in Charts 1 and 2 show, GDP growth has begun to trail off – and there are fears that passenger growth, which has slowed in the last year, may descend into negative growth in 2009.

Such concerns are consistent with the early 1990s downturn when the economy reached its nadir in 1991/92 the low point in rail passenger use did not come until 1994/95.

This raises serious questions about the viability of the Department for Transport's (DfT) franchise model in a period of recession. Most rail franchises are expected to receive either lower subsidies in 2008/09 or to pay higher premiums to the DfT.

There are therefore fears that rail companies will come forward with unpalatable solutions:

- 1. Either attempting to renegotiate franchise agreements, which could include:
 - a. Reducing premium payments or requesting extra subsidies**
 - b. Cutting services on less profitable routes****
- 2. Cutting staff numbers to reduce overhead costs, which would increase unemployment and could lead to worse services and less passenger safety**
- 3. Raising rail fares, which could drive passengers from the rail into private transport**

All of the above options, raise serious doubts about a range of public policy objectives on the railways, including:

- 1. Modal shift from road to rail to reduce carbon emissions;**
- 2. Social exclusion – increased rail fares will drive poorer farepayers with no alternative private transport options from the railways;**
- 3. Increasing employment towards a target of 80%;**
- 4. Improving passenger safety at rail stations and reducing staff assaults.**