ANALYSIS: SHUTDOWN OF RAIL SERVICE COULD SPUR RECESSION

Background

Under the Rail Safety Improvement Act of 2008, railroads are required to implement positive train control (PTC) on lines that ship certain hazardous materials and carry passengers by rail by December 31, 2015. The Association of American Railroads, Government Accountability Office, and Federal Railroad Administration have clearly stated that the railroads will not be able to implement PTC by the deadline. Consequently, most railroads have publicly declared that they will be forced to shut down large portions of rail service unless the deadline is extended.

Severe Consequences

A major disruption of rail service would have direct, immediate, and cascading impacts on the nation's food, energy, and water supplies. It would hit every point across our nation's supply chain. The costs of a major disruption of rail service would be felt immediately in terms of public health impacts, plant and business shutdowns, lost jobs and income, and a drop off in tax revenues for states and local governments. The harmful effects will start well before the deadline passes. Some negative impacts are already being felt as affected freight rail customers must prepare well in advance of such a massive potential service disruption.

Key Findings

According to the American Chemistry Council's economic analysis, rail service disruptions lasting only one month will result in a 2.6 percentage reduction to U.S. real GDP growth during the 1st quarter of 2016, which would pull **$30 billion dollars out of the economy**. This blow to the economy would effectively nullify the projected growth for the GDP and could thrust the U.S. economy from one of modest expansion into one of contraction.

A one month suspension of rail service will create an economic winter that would put a major chill on just about every leading indicator in the 1st quarter:

- The unemployment rate would increase by 0.3% with a loss of 700,000 jobs.
- Household incomes would fall by over $17 billion, depressing consumer confidence and spending.
- Vehicle sales would be driven down with 175,000 fewer cars sold, and housing starts would stall with almost 28,000 fewer homes built—all of which would have dire consequences for a multitude of industries throughout the supply chain.

Should the shutdown of rail service be prolonged, it would be truly catastrophic, **likely resulting in a recession.**