UP says more layoffs coming as traffic declines

By **Bill Stephens** | November 7, 2019
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CHICAGO — More layoffs are coming at Union Pacific as traffic volume continues to fall amid global trade disputes, tougher competition from trucks, and the ongoing slide in coal.

By the end of the year, UP expects its workforce to be at least 18% below the levels of the fourth quarter of 2018, Jennifer Hamann, senior vice president of finance, told an investor conference today.

That translates into a cutback of nearly 2,500 positions in the final three months of 2019, which would bring total headcount at UP to around 34,191. Overall this year, UP will have cut 10% of its workforce due to the combined impact of volume declines and efficiency gains under its shift to Precision Scheduled Railroading.

Through Nov. 4, UP's fourth-quarter traffic volume is down 11%, and 5% for the year to date.

Energy traffic, which includes coal and frac sand, is down 19% for the quarter. Premium traffic, which includes intermodal and automotive, is down 15%, although auto volume is expected to bounce back as General Motors ramps up production after the United Auto Workers strike. Agriculture shipments are down 3%, but could improve if China buys more U.S. products.

Industrial Products volume is up 2%, largely due to increased plastics and construction-related traffic.

UP maintained its financial guidance for the year, along with its operating ratio targets of a sub-61% operating ratio this year and a sub-60% operating ratio next year. Hamann says UP's 55% long-term operating ratio target depends on achieving volume growth, price increases, and productivity gains. "We want to grow to 55. We don't want to have to save our way there," she says.

UP has ratcheted back capital spending by $100 million, and now plans to spend $3.1 billion for the year.

Chief Operating Officer Jim Vena says UP's lower cost structure and improved service will enable the company to better compete against trucks and other railroads. Vena says he's pleased with the progress UP has made on several key metrics, including trip plan compliance and car miles per day, but that much remains to be done.

Vena, the former Canadian National operations chief who came out of retirement to join UP in January, says he expects to make major operational changes again in 2020. This year UP idled the humps at four classification yards, consolidated yard operations in several key terminals, and has been moving tonnage on fewer but longer trains.

The railroad had 2,700 locomotives — roughly a third of the fleet — in storage at the end of October, which was up 100 units from September, Vena says.

UP will be changing the way it measures average train speed and terminal dwell, Vena says, and will restate last year's numbers to conform to the new metrics.

It was not immediately clear if UP will begin using the same metrics as Canadian National, Canadian Pacific, and CSX Transportation. A UP spokeswoman did not immediately return an email seeking comment.

Hamann, who will become chief financial officer on Jan. 1, and Vena spoke at the Baird 2019 Global Industrial Conference.