Touchbase

APRIL 2007

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UP lifts coal embargo

BNSF and UP announced last year plans to invest $100 million in the coal line to help prepare for demand

April CSXI surcharge up 1.5 percent compared to March

Railroad Updates

Union Pacific Corp. lifted its embargo on new contracts for Wyoming coal in March, signaling that the nation's largest railroad is ready to sign up new coal customers for the first time in nearly two years.

The Omaha-based railroad established the embargo in July 2005 after problems were discovered on the rail line coming out of Wyoming's southern Powder River Basin that the UP and the BNSF Railway own jointly. Both UP and BNSF set new records again last year for the amount of coal they hauled, but the railroads have faced criticism from utilities over the past two years for failing to keep up with the nation's rapidly growing appetite for coal.

UP spokesman James Barnes said several factors prompted the decision to accept new business. The railroad succeeded in reducing the amount of time trains spend in its rail yard in North Platte, and it completed several projects that increased capacity. And the joint line in Wyoming is in much better shape today, even though UP and BNSF are still adding capacity.

"We still have a lot of work to do to meet 2007 and future years' demand," Barnes said, but Union Pacific officials feel good about the railroad's operations.

BNSF never embargoed new coal business on the joint line, but the Fort Worth, Texas, based railroad also owns a rail line that enters the Powder River Basin from the north side that Union Pacific doesn't have access to. Barnes said UP imposed its embargo to make sure it could serve the customers it already had. The embargo did not allow for new customers, but existing coal customers could get Union Pacific to deliver more coal if the terms of their contract allowed for it, Barnes said.

"We wanted to make sure we were taking care of our existing customers," Barnes said.

BNSF and Union Pacific announced plans last year to invest $100 million in the coal line they share to help prepare for growing demand.

Read the entire article:
http://www.businessweek.com/ap/financialnews/D8O4POD01.htm

CSXI to assess 18.5 percent fuel surcharge in April

CSX Intermodal's fuel surcharge is increasing for the second-straight month. On Monday, the company will implement an April surcharge of 18.5 percent, up 1.5 percentage points compared with March's 17 percent fuel surcharge.

CSXI previously applied fuel surcharges of 15.5 percent in February, 17.5 percent in January and December, and 16.5 percent in November.

April's 18.5 percent surcharge applies to CSXI's ramp-to-ramp, ramp-to-door, door-to-ramp and door-to-door rates. The drayage-only fuel surcharge for April will be 24 percent.

Read the entire article:
http://www.progressiverailroading.com/prdailynews/news.asp?id=10432

BNSF Announces General Tariff Lottery Program

BNSF currently offering all tariff cars within the grain trade industry through general lottery

In order to ensure an equal distribution of tariff cars to customers, the BNSF is currently offering all tariff cars within the grain trade industry (singles and units) through their General Tariff Lottery Program. The program will consist of three (3) mini-lotteries for both single and unit requests each month.

The want dates available for tariff cars will be divided into three (3) 10-day periods for each month.

BNSF will offer tariff cars as follows:

Period 1 - April 1-10:
From Monday, March 5 through Wednesday, March 7.

Period 2 - April 11-20:
From Monday, March 12 through Wednesday, March 14.

Period 3 - April 21-30:
From Monday, March 19 through Wednesday, March 21.

BNSF says outstanding car orders that have not been awarded must be resubmitted to retain their priority

BNSF will offer 667 cars for each period of April.

It is important to realize that outstanding car orders that have not been awarded must be re-submitted to retain their priority.

Read more at:
www.bnsf.com

AAR Updates

Railroads Provide Warmth to Thwart February Cold

Utilities receive ample coal supplies for winter heating season

On March 1, 2007 the AAR announced that as winter storms gained intensity during February, the nation's railroads made sure that electric utilities had ample supplies of coal on hand to meet the heating needs of Americans.

In fact, freight railroads delivered more coal in 2006 than in any previous year on record. The estimated 840 million tons they delivered last year broke the previous record — set just one year earlier — by more than 35 million tons. Because more than half of the nation's

EIA reported that coal inventories had climbed to their highest levels in four years

Railroads worked overtime last year to make sure that electric utilities would have enough coal

Railroads are well-prepared for continued growth in the coal market

Rail Traffic Mixed in February

electricity comes from coal, utility customers didn't have to worry about heat on even the most frigid days.

The good news is confirmed by the Department of Energy's Energy Information Administration (EIA), which reported on February 22 that coal inventories had climbed to their highest level in four years at the end of December — 139.7 million tons, up an astonishing 38.5 million tons from December 2005. Coal mines in Wyoming had a particularly strong year in 2006, with production rising by 10 percent.

"The biggest reason is better railroad capacity," said Marion Loomis, executive director of the Wyoming Mining Association in an article published by the Casper Star-Tribune. Steve Rennell of Foundation Coal — the nation's fifth largest coal producer — agreed. He told the Gillette (Wyo.) News-Record, "We've seen the railroads, particularly toward the end of the year, performing at an exceptional level."

"Railroads worked overtime last year to make sure that electric utilities would have enough coal," said Association of American Railroads (AAR) President and CEO Edward R. Hamberger. "Every one of the major U.S. freight railroads moved more coal last year than in 2005. And the results are impressive: record volumes and healthy coal inventories."

Although railroads experienced some coal delivery problems in 2005 due to weather-related track problems in the Powder River Basin, they still managed to move a record 804 million tons that year. Hamberger noted that railroads are investing heavily in projects that will increase their ability to haul even more coal in the future.

"Last year's record $8.6 billion expenditure on capital improvements helped expand track capacity, increase coal car capacity and expand locomotive fleets," he said. "Railroads in the Powder River Basin — the nation's largest source of coal — are triple tracking and, in some cases, even quadruple tracking their coal lines in the PRB." He continued, “Railroads are well-prepared for continued growth in the coal market, with plans to pour some $9.4 billion into capital improvements this year.”

Visit the AAR at:
http://www.aar.org

Railroad Traffic

Intermodal freight was up but carload volume was down on U.S. railroads during February in comparison with last year, the Association of American Railroads (AAR) reported on March 8.

Railroads originated 1,261,167 carloads of freight in February 2007, down 54,812 carloads (4.2 percent) from February 2006. U.S. railroads also originated 924,905 intermodal units in February 2007, an increase of 36,011 trailers and containers (4.1 percent) over February 2006.

Nonmetallic minerals, coal and chemical carloads up in February

Four of the 19 major commodity categories tracked by the AAR saw U.S. carload increases in February 2007 compared to February 2006.

Commodities showing carload gains in February 2007 included nonmetallic minerals (up 19.3 percent); coal (up 0.6 percent); and chemicals (up 2.4 percent).

Crushed stone, sand and gravel, motor vehicles and equipment and grain carloads down in February

Commodities showing carload decreases in February 2007 included crushed stone, sand, and gravel (down 14.2 percent); motor vehicles and equipment (down 10.9 percent); and grain (down 10.2 percent).

For the first two months of 2007, total U.S. rail carloads were down 167,240 carloads (5.6 percent) to 2,814,227 carloads. Commodities with the largest carload declines in 2007 through February included motor vehicles and equipment (down 16.7 percent); crushed stone, sand, and gravel (down 16.7 percent); and grain (down 8.6 percent).

Snow, ice and GDP growth blamed in February freight traffic

"The U.S. freight railroad 'factory floor' is outdoors and about 141,000 miles long, and during February a lot of those miles were under snow and ice," noted AAR Vice President Craig F. Rockey. "In addition, a week ago the government revised downward its estimate of GDP growth for the fourth quarter of last year, and it seems that a meaningful acceleration in economic activity has not occurred so far this year. That said, railroads are still hauling enormous amounts of traffic, and when the economy is ready to ship even more, railroads will be ready."

U.S. intermodal traffic, which consists of trailers and containers on flat cars and is not included in carload figures, was up 0.9 percent for the first two months of 2007. Total volume for the first two months of 2007 was estimated at 286.1 billion ton-miles, down 4.3 percent from the same period last year.

Canadian carload down 6.0 percent in February

Canadian rail carload traffic was down 6.0 percent in February 2007 and down 4.8 percent for the year to date. In February, a large increase in carloads of metallic ores (up 15.8 percent), among a few other commodities, was not enough to offset declines in lumber and wood products (down 26.3 percent), primary forest products (down 33.2 percent), and grain (down 8.6 percent), among others.

Carloads carried on Kansas City Southern de Mexico (formerly Transportación Ferroviaria Mexicana - TFM), a major Mexican railroad, were down 2 carloads in February 2007 while intermodal units carried totaled 17,331 units, up 1,297 units (8.1 percent).

Combined cumulative rail volume for the first 9 weeks of 2007 on 13 reporting U.S. and Canadian railroads totaled 3,471,106 carloads, down 5.5 percent (200,581 carloads) from last year, and 2,411,533 trailers and containers, up 0.7 percent (15,630 units) from 2006's first 9 weeks.

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Housing Slowdown Making 2007 a Harder Year for Cement

Cement consumption expected to be up only 1.5 percent in 2007

"Cement intensity is influenced by changes in the composition of construction, the regional composition of cement demand, and the competitive price position of concrete against competing materials"

Industrial Inside

Even with non-residential and public construction moving ahead at a healthy clip, cement consumption is expected to be up only 1.5 percent this year as the result of weakness in the housing industry, Ed Sullivan, chief economist for the Portland Cement Association, said in his spring forecast last week.

Sullivan's forecast for cement consumption this year projects a decline of nearly 6 million metric tons from the amount of cement used in residential construction in 2006. "Single-family starts activity and residential cement consumption will not recover until the existing inventory level of homes is reduced," he said.

PROJECTED U.S. POWDER CONSUMPTION (000 METRIC TONS)

	2004	2005	2006*	2007**	2008**
Total Cement Consumption	**120,060**	**126,764**	**127,536**	**127,889**	**131,345**
Portland Cement	114,889	121,275	122,056	122,457	125,949
Masonry Cement	5,172	5,489	5,480	5,432	5,396
Portland Share of Total (%)	95.7%	95.7%	95.7%	95.8%	95.9%
Cement and Clinker Imports	27,305	33,652	38,443	38,587	35,567
Import Share of Total (%)	23.8%	27.7%	31.5%	31.5%	28.2%
Percent Change					
Total Cement Consumption	**6.9%**	**5.6%**	**0.6%**	**0.3%**	**2.7%**
Portland Cement	6.8%	5.0%	0.0%	0.3%	2.9%
Masonry Cement	9.0%	6.1%	-0.2%	-0.9%	-0.7%
Cement and Clinker Imports	17.5%	23.2%	14.2%	0.4%	-7.8%
Source: Portland Cement Association			**trending*	***estimated*	

However, after a weak first half, declines in housing starts "will turn to gains by the end of the year," he added.

On a year-over-year basis, single-family home sales will post gains in the second half of 2007, a trend that should continue into 2008 and 2009, contributing to an estimated 3.9 percent increase in cement construction next year. At the height of the housing boom, cement consumption was growing at an annual rate of 5.5 percent.

A 33 percent increase in asphalt prices during the second half of 2006 along with hefty increases in steel prices should start giving a competitive edge to cement during the second half of 2007, Sullivan added.

"Cement intensity is influenced by changes in the composition of construction, the regional composition of cement demand, and the competitive price position of concrete against competing materials," Sullivan said. "It is the relative price and changes in the composition of construction that will be key to intensity gains in 2007."

While the outlook remains favorable, albeit a bit lackluster compared to the years prior to the housing downturn, Sullivan did caution that the odds of the economy unraveling have increased significantly over the last year, largely because consumers are not in the best shape to sustain their recent levels of spending.

Also, a sudden outflow of foreign capital from U.S. markets could result in an unanticipated increase in interest rates that would create a “vicious circle” of defaults and tightening credit in the home mortgage market, he warned.

Even so, Sullivan calculated the odds of an imminent recession at no higher than one in three and said that the risk is about 25% according to a survey of economists.

HOUSING AND INTEREST RATE FORECAST

	2004	2005	2006*	2007**	2008**
Total Starts (000)	1,950	2,073	1,844	1,620	1,726
Single-family (000)	1,604	1,719	1,505	1,310	1,395
Multifamily (000)	345	354	339	310	331
New Single-Family Home Sales (000)	1,201	1,280	1,059	969	1,058
Existing Home Sales (000)	5,912	6,170	5,649	5,250	5,700
Source: National Association of Home Builders			**trending*	***estimated*	

Learn more at:
http://www.nbnnews.com/NBN/issues/2007-03-26/Economics+&+Finance/4.html

Financial Focus

The Federal Reserve held a key short-term interest rate steady at their meeting on March 21 but seemed to acknowledge that problems in the housing market could spill over into the broader economy - news that was widely applauded on Wall Street.

The Fed kept its target for the federal funds rate, an overnight bank lending rate that helps determine rates on credit card, home equity and other loans, at 5.25 percent. It was the sixth consecutive meeting where the Fed did not change rates after raising rates seventeen straight times between June 2004 and June 2006 in order to fight inflation.

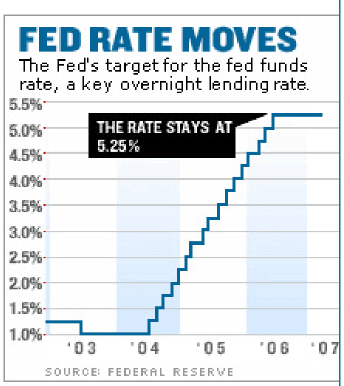
Stocks and bonds rallied after the Fed's statement appeared to indicate that the central bank was a bit more concerned about slowing growth than it had been in prior months. That could mean the Fed is not likely to raise rates in the near term and might even start cutting them if need be later this year.

Investors were also relieved the Fed did not specifically mention problems in the subprime mortgage market, taking that as a sign that rising defaults among borrowers with poor credit histories may not be that big of an issue. The Fed did say inflation was still the main risk going forward, however.

"The Fed is not lowering their guard on inflation and they've been telling the market that for some time," said Oscar Gonzalez, an economist with John Hancock Financial Services in Boston.

Sullivan warns “a sudden outflow of foreign capital from U.S. markets could result in an unanticipated increase in interest rates that would create a ‘vicious circle’ of defaults and tightening credit in the home mortgage market”

Fed holds rates steady at 5.25 percent for the sixth consecutive meeting



Fed did indicate in its statement that recent economic indicators "have been mixed" and that the "adjustment

in the housing sector is ongoing."

But the Fed did indicate in its statement that recent economic indicators "have been mixed" and that the "adjustment in the housing sector is ongoing." The Fed added that "future policy adjustments will depend on the evolution of the outlook for both inflation and economic growth."

Learn more at:
http://money.cnn.com/2007/03/21/news/economy/fed_rates/index.htm

The Edge

For many of you, the economic indicators for your book of business are very tumultuous. We are fortunate in that we have a lot of well run companies in the U.S. that generally have a plan to succeed.

Housing starts are no longer a mystery; they're flat, the dollars supporting them are questionable (see the mortgage and sub-prime mortgage default rates), construction building took up a little slack but it's future is also foggy, auto related industrial business (finished auto's and components) are struggling and the grain industry supported by corn supply and demand is changing the way many ethanol, food and cattle feeders think about input costs.

From a transportation perspective, our advice is to look for opportunities to decrease costs. The railroads will begin to feel the same pain you're feeling but it will be delayed as transportation pricing generally leads in good times and lags in poor times. Regardless of the status of your business, here are a few areas that you should focus on:

- ✓ Look for ways to increase efficiencies (ship more cars at one time)
- ✓ Integrate your administrative functions with the railroads (use electronic communication as much as possible)
- ✓ Audit your maintenance bills for railcar repair
- ✓ Look to private contractors for rail track upgrade versus letting a Class I do it for you at their cost
- ✓ Understand how your local shipping pattern integrates with the railroads local service and see where you can help decrease costs for the railroad and reap some benefits.

If you're lucky enough to be on the opposite side of the curve and are managing growth, our suggestion is to manage the transportation portion of that growth as if you're hedging your bets and need to squeeze every last dollar out of your transportation infrastructure to survive.

If we may be of assistance please don't hesitate to call upon us.

We look forward to earning your business!