Tealinc

Touchbase

April 2011

In This Issue

- Railroad Updates
- AAR Updates
- Railroad Traffic
- Industrial Inside
- Financial Focus
- The Edge

Visit us at:
www.tealinc.com

Settlement calls for new proposals on which Class I tracks must deploy PTC

Class I railroads have been trying to scale back their TIH cargoes, or apply tougher risk terms to such shipments to shed risk to customers and cover more of the potential rail technology costs

Railroad Updates

FRA to Scale Back Train Control Regulation

The Federal Railroad Administration, in a legal settlement with the Association of American Railroads, agreed to issue new regulations that could scale back the amount of Class I rail track that must deploy expensive train-control systems to prevent collisions.

The change in stance by the FRA came on the eve of what would have been a March 7 hearing at the U.S. Court of Appeals in Washington, D.C., on an AAR petition to review the agency's earlier rule that set the scope of "positive train control" requirements.

From the outset the trade group for the largest U.S. railroads and some regional lines had argued that because the FRA used a past baseline year of 2008 for which track areas must deploy collision-avoidance PTC systems, it was locking in too much track area. The 2008 law mandating PTC deployment by the end of 2015, across most of the national rail network, mainly targeted tracks that support passenger train service and carry toxic inhalation hazard chemicals, the most deadly category that can generate poison clouds in a railcar rupture.

Class I railroads have been trying to scale back their TIH cargoes, or apply tougher risk terms to such shipments to shed risk to customers and cover more of the potential rail technology costs. The PTC requirements along with other passenger train performance measures have also been a sticking point in negotiations between states, major railroads and the FRA for accords to use passenger rail grants. And many smaller railroads say they may be caught making major investments for very little such traffic.

The four largest U.S. railroads alone expect to spend nearly $1 billion this year on PTC investments. PTC requires building a network of trackside and satellite communications linked with gear on the locomotive that could allow remote control or automatic braking to take over from on-board crews if trains were on a collision course.

The settlement calls for the FRA to publish a new notice of proposed rulemaking that would eliminate the deployment mandate for tracks that do not carry TIH or passenger trains as of Dec. 31, 2015. The agency would also issue a separate proposal that spells out processes for handling PTC failures and allowing other trains to move in that event. Both rule proposals would be subject to change following public comments.

BB&T Capital Markets told clients in a March 7 notice that while the settlement would scale back the areas for the new technology "PTC is not going away, and there is still debate on how the new standards will look." It predicted that PTC would ultimately "be limited to more specific high-traffic routes . . . and will be at least partially funded through the government."

Read the article at: **http://www.joc.com/rail-intermodal/fra-scale-back-train-control-mandate**

Intermodal Providers Looking for Trucking Partners

The intermodal divisions of several railroads – Norfolk Southern, CSX Intermodal, and BNSF Railway – were out in force hunting for potential trucking partners at the 2011 Truckload Carriers Assn. (TCA) Annual Convention in March.

Tom Selbitschka, BNSF's director of sales for LTL marketing and expedited services, told Fleet Owner now is "a good time" for railroads and trucking companies to forge freight intermodal partnerships as a lack of capacity and rising fuel prices is putting pressure on all modes of transportation.

"The trucking industry in particular is dealing with an enormous number of challenges simultaneously," Selbitschka said. "You've got high diesel fuel prices, the new CSA [Compliance, Safety, and Accountability] safety program, new hours-of-service regulations, more highway congestion, and a growing lack of drivers. These issues are not going away."

In particular, he said that combination rail-truck freight moves work best when shipment length of haul is above 400 to 500 mi. For trucking companies, it creates shorter lengths of haul that burn less fuel and get drivers home far more frequently, he noted.

Selbitschka stressed that he uses the word "partnership" deliberately to identify the kind of "win-win" relationship railroads like BNSF are trying to forge with truckers.

"We can do an awful lot more in a partnership versus transaction business," he explained. "We can plan freight volumes better, create better lanes, and manage costs better for both. It's a two-way street as well; both sides need to benefit."

The beefed up search for intermodal partnerships is also occurring at a time when freight transportation capacity as a whole remains extremely tight, making it more difficult for shippers to move their goods.

According to research firm FTR Associates, its Shippers Condition Index (SCI) remained in low territory in February with a value of negative 5.2, with expectations of a continued drop as the outlook for capacity shortages worsen in the seasonally strong spring months. As a result, total shipping costs will accelerate rapidly driven by growth in transport costs, said Noel Perry, senior consultant with FTR.

"The March number will drop sharply as the spring surge in freight arrives," he said.

The four largest U.S. railroads alone expect to spend nearly $1 billion this year on PTC investments

Now is "a good time" for railroads and trucking companies to forge freight intermodal partnerships as a lack of capacity and rising fuel prices is putting pressure on all modes of transportation

Combination rail-truck freight moves work best when shipment length of haul is above 400 to 500 miles

We can plan freight volumes better, create better lanes, and manage costs

better for rail and trucking. It's a two-way street as well; both sides need to benefit

Learn more at: http://fleetowner.com/management/news/intermodal-providers-trucking-partners-0315/

AAR Updates

The Association of American Railroads announced March 9, 2011 that the nation's freight railroads in 2011 are planning to spend a record $12 billion on capital expenditures, after setting a record with $10.7 billion in capital spending in 2010. According to the Great Expectations 2011, Railroads and Continued U.S. Economic Recovery report, these investments are potentially threated by regulatory and legislative policies being considered in Washington, D.C.

America's freight railroads announce record capital investments in 2011

"Even during the worst recession in a generation, freight railroads have been plowing record amounts of private capital back into the rail network each and every year, achieving one of the highest capital investment rates of any U.S. industry," said AAR President and CEO Edward R. Hamberger. "A regulatory framework that provides certainty will foster continued economic recovery and job creation."

While President Obama and other leaders have called upon private companies to increase capital spending and rev up hiring, the nation's freight railroads have been spending record sums of private capital on the rail network and bringing people back to work. Railroad hiring at the end of 2010 was up 5.2 percent over the year before, according to the report, and railroads are positioned to hire more workers in the coming years.

The nation's freight railroads in 2011 are planning to spend a record $12 billion on capital expenditures

"The President has issued a clear call to American businesses, urging them to get off the sidelines and get back in the game by investing capital and hiring," Hamberger said. "Freight railroads have been in the game for the past 30 years, investing more than $480 billion to build and maintain America's freight rail network with private capital, and supporting jobs all across the country. Freight railroads have a great track record and are ready to continue investing in the national rail network so U.S. taxpayers don't have to. But, we must have a regulatory framework that supports, and does not hinder, private investment."

The President has issued a clear call to American businesses, urging them to get off the sidelines and get back in the game by investing capital and hiring

"President Obama recognizes the role businesses play in putting our economy back on track, and his Executive Order pledging to review and eliminate onerous regulations that stymie growth and economic competitiveness is a significant step in the right direction," Hamberger said, noting that AAR and the Federal Railroad Administration (FRA) recently agreed to undertake a review of the most expensive federal mandate in U.S. railroad history – the agency's final regulations for implementing positive train control. Under a settlement between the railroads and FRA, the agency will issue a new notice of proposed rulemaking addressing areas within the final PTC rule.

"Ultimately, the regulatory environment in Washington, D.C., must be aligned to support freight rail's continued investments in the national rail network," Hamberger said. "Now is the time to revisit what regulations stand in the way of reaching our goals, while preserving those that help ensures continued success and growth."

Read the entire article at: **http://www.aar.org/NewsAndEvents/Press-Releases/2011/03/09-GreatExpectations.aspx**

Railroad Traffic

February freight rail traffic continues to make gains

The Association of American Railroads (AAR) reported March 7, 2011 that monthly carloads in February 2011 increased 4.2 percent compared with the same month last year, for a total of 1,135,396 carloads. According to AAR's monthly Rail Time Indicators report, intermodal traffic in February increased 10.3 percent for a total of 881,830 trailers and containers compared with February 2010.

Monthly carloads in February 2011 increased 4.2% compared with the same month last year

February 2011 marks the twelfth straight month for carload and the fifteenth straight month for intermodal traffic increases on a year-over-year basis, showing the continued gradual upward trend in rail traffic. On a seasonally adjusted basis, however, carloads were down 3 percent and intermodal up 0.1 percent over January 2011.

"Rail traffic can be negatively affected by winter storms, and we got some of that in February," said AAR Senior Vice President John Gray. "That said, U.S. rail carloads have now increased for 12 straight months and intermodal loadings for 15 straight months. Rising consumer confidence, an improving employment picture, and higher manufacturing output are just some of the indicators that, along with rising rail volumes, point to an economy that seems poised to continue to grow in the months ahead."

The year-over-year increase for February 2011 is the smallest since July 2010, which may be attributed to heavy snowfall over most of the country that made rail operations more difficult.

U.S. rail carloads have now increased for 12 straight months and intermodal loadings for 15 straight months

Overall, 15 of 20 commodity categories saw carload gains on U.S. railroads in February 2011 compared with February 2010. Traffic gains in February were led by metallic ores up 71.9 percent; nonmetallic minerals, up 12.7 percent, and motor vehicles and parts, up 11.2 percent. The five commodity categories seeing declines for the month — including grain mill products and food products— together accounted for less than 8 percent of total carloads for the month.

As of March 1, 2011, 306,316 freight cars, or 20.2 percent of the fleet, were in storage. That is a decrease of 12,457 cars from February 1, 2011.

Learn more at: **http://www.aar.org/NewsAndEvents/Press-Releases/2011/03/07-rti.aspx**

Industrial Inside

Reduced exports to Japan could pinch U.S. economy

U.S. exporters to Japan are reporting widespread disruptions to their shipments, with some containers destroyed, stranded in warehouses or unable to get to customers because of inadequate transportation systems. Most affected are U.S. growers of fruits, vegetables and other agricultural products that ship in large quantities to the world's third-largest economy. Japan, because of its mountainous terrain and cooler climate, depends heavily on agricultural imports.

Most affected are U.S. growers of fruits, vegetables and other agricultural products that ship in large quantities to the world's third-largest economy

Japan accounts for 4.7% of all U.S. merchandise exports and 8.2% of services exports such as travel

U.S. producers will likely help make up for reduced Japanese exports of industrial machinery and construction to China

Fed not sweating high oil prices

Other top U.S. exports to Japan are chemicals, computers, and factory and transportation gear. Much of the concern about supply disruptions caused by the earthquake centered on Japanese exports to the U.S.

But reduced U.S. exports could have a small but noticeable effect on economic output during a fragile recovery, especially if it persists. Japan accounts for 4.7% of all U.S. merchandise exports and 8.2% of services exports such as travel, according to IHS Global Insight. Together, they make up 0.7% of U.S. economic output.

Within a few months, however, any losses should be more than offset as U.S. manufacturers fill in production shortfalls in Japan, says Diane Swonk, chief economist of Mesirow Financial. For example, U.S. producers will likely help make up for reduced Japanese exports of industrial machinery and construction to China. Swonk has increased her estimates of U.S. export growth this year from about 12% to 17%.

With several nuclear plants shuttered, Japanese utilities are also expected to turn to natural gas and coal to meet electricity needs. Top coal supplier Peabody Energy expects it will sell more coal to "get Japan running again," says Vic Svec, senior vice president.

In the short term, some U.S. firms are hurting. Don Soetaert, chairman of Shoei Foods USA in Marysville, Calif., says $40 million of Shoei's walnuts, almonds, raisins, apricots and pecans are stranded in a warehouse near Sendai, near the quake's epicenter. A 17-foot-high wall of mud inside the building is preventing workers from even getting in, he says.
Soetaert says he thinks most of the goods are intact, but about $1.5 million could have been destroyed, along with another $1.5 million at other warehouses across the country. Even if workers can retrieve Shoei Foods' goods from warehouses, Soetaert says a fuel shortage is hindering truck deliveries to retailers. Plus, he says, "We think people (in Japan) are going to kind of hunker down and save and not (shop for) luxury stuff like almond croissants."

Noting Shoei USA's annual $100 million in sales to Japan is 70% of its revenue, Soetaert estimates total sales could fall 15% in coming weeks.
Jim Lamb, a manager at Gillette Citrus, an orange grower in Dinuba, Calif., says exports to Japan — about 20% of its sales — could drop by 50% in coming weeks. If he can't sell more oranges in other countries, Lamb says, "I'll probably have to harvest less."

DuPont, a large exporter, says deliveries are normal, except for some delays due to congested Japanese air cargo terminals and seaports.

Read the article at: **http://www.bloomberg.com/news/2011-03-22/natural-gas-may-reign-as-queen-following-japan-nuclear-crisis.html**

Financial Focus

The nation's economic recovery is getting stronger but inflation remains in check, according to the Federal Reserve. The Fed said March 15, 2011 it will remain on its current course of pumping more cash into the economy. "The economic recovery is on a firmer footing, and overall conditions in the labor market appear to be improving gradually," said the Fed in one of its most bullish statements in years.

The economic recovery is on a firmer footing, and overall conditions in the labor market appear to be improving gradually

The central bank acknowledged there have been significant increases in commodity prices such as oil since its last meeting, but added that it believes underlying inflation pressures remain subdued.

The Fed said it will continue its plans to buy up to $600 billion in long-term Treasuries through the end of June in an effort to spur stronger economic growth.

That policy, known as quantitative easing or QE2 for short since it is the second round of bond buying, has come under criticism by economists worried about inflation.

But the Fed said it doesn't believe that the oil price increases are a concern it should address since it thinks the supply concerns, sparked by turmoil in the Middle East, will prove to be "transitory."

But despite higher inflation readings as of late, the Fed said "measures of underlying inflation continue to be somewhat low" -- suggesting the Fed is still more worried about the risk of weak prices.

Even the so-called inflation hawks among the Fed policymakers, such as Dallas Fed President Richard Fisher and Philadelphia Fed President Charles Plosser voted in favor of the Fed's actions. Those two presidents have been critical of QE2 in recent public statements.

Fed left the fed funds rate near 0%, where it has been since December 2008

The Fed also left the fed funds rate, its key rate that is used as a benchmark for a wide range of consumer and business loans, near 0%, where it has been since December 2008. The central banks repeated that it still expects to keep rates exceptionally low for "an extended period."

Still, higher energy and food prices are just one of several headwinds that economists fear could slow or stall the recovery. Cuts in spending by federal, state and local governments, continued weakness in the U.S. housing market and slowing growth overseas are other concerns.

Global fears have been exacerbated by the devastating earthquake in Japan, which many economists believe could send the world's No. 3 economy into recession. The Fed did not mention the events in Japan in its statement.

The lack of any mention of Japan wasn't the only thing that caught economists' attention.

The Fed nixed mentions of how economic growth had been too slow "to bring about a significant improvement" in jobs, or that "employers remain reluctant to add to payrolls." Both those phrases were in the statement released following the Fed's last meeting in January.

Also dropped from March 8, 2011 statement was a reference to how

The unemployment rate has declined almost a full percentage point between November and February, the biggest three-month drop in nearly 28 years

consumer spending "remains constrained by high unemployment, modest income growth, lower housing wealth, and tight credit."

Theodore Littleton, economist with IFR Markets said he wasn't surprised with the more positive tone from the Fed.

"It was getting a little difficult to defend their more downbeat assessment of the labor markets, given the drop in the unemployment rate," he said.

The unemployment rate has declined almost a full percentage point between November and February, the biggest three-month drop in nearly 28 years.

But other economists said the Fed's stance is curious, given the rising concerns about obstacles for the recovery.

"We did expect a more upbeat tone but it's surprising to see them drop all of those phases that had been used a cautionary signals," said Michael Gapen, director of U.S. economic research at Barclays Capital.

Read the article at:
http://money.cnn.com/2011/03/15/news/economy/federal_reserve_decision/index.htm

The Edge

Our condolences go out to all those families in Japan and around the world that lost loved ones or are still waiting news of friends and family from the aftermath of the earthquake in Japan.

There is a lot of weather, natural disaster and financial turbulence in the world today which has a direct effect on the United States transportation. In lieu of reiterating what you can find on CNN or other news channel we've decided this month to give you the reactions of many of our customers and cohorts in the business.

On the Middle East, Libya and the US oil supply.

> "The vessel hold-up in the Suez Canal is what started the crisis, if you can call it that, for immediate oil supply concerns. That in turn gave the permission slip to oil companies to raise prices"

> "Oil field development and the subsequent movement of crude oil in the United States is somewhat limited by environmental concerns but even more so by transport concerns. Look at the pipeline network and the condition of the pipeline network. That's why you're seeing such an increase in demand for tank cars."

> "We have a combination of political unrest and legislation that causes demand and supply to move outside of normal demand and supply channels. We're in one of those now."

On the Export Market.

> "Timing is everything. We've seen an investment by (name withheld) in the Pacific Northwest that appears more strategic than one would have thought. Then we get significant export demand for feed grains to feed either drought or rain stricken foreign

countries and everything falls into place magically and we're in the grain export business in a very big way."

"Coal export markets off either coast are booming. That's what's driving the basic coal markets in the United States. Consider the volume of coal being transported by rail and the complexities of the export market and you'll predict rail service interruptions."

"Look at the amount of old crop (grain) that needs to move and you'll get a feel for rail and barge service"

"We expect to see an increase in the export scrap market and even export steel market to Japan to help in the rebuilding process"

On the Domestic Market.

"There seems to be some consumer confidence. Based on what, I don't know, basic goods are being shipped via intermodal that would indicate more buying by the common person"

"The economic crisis can only be declared over when an average family has jobs and can make enough money to afford the general three bedroom two bath house"

Our Thoughts

The export market is driving a tremendous amount of immediate growth at this time. Commodities that are important to provide electricity such as coal, oil and gas and commodities that are important for food and protein such as small and whole grains, beef, poultry and hogs remain in the forefront of the underlying economy from a pure volume standpoint. The movement of most of these commodities touch the rail and truck transport system and given the domestic and export mix will create congestion. We're moving into spring so there will be a natural reprieve from the weather for the transport of many of these commodities. However prior planning is important for long term sustainable logistics regardless of what you plan to transport.

We look forward to earning your business!