Touchbase

April 2012

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KCS announces Easter holiday weekend service reduction – plan accordingly

Size of rail equipment fleet grew 0.1 percent in fourth quarter of 2011

The expansion of domestic energy helped drive the growth of the sub-fleets of covered hoppers (1 percent) and tank cars (0.3 percent)

Railroad & Policy Updates

On March 20, 2012, the Kansas City Southern (KCS) sent a notice to its customer regarding the Easter holiday weekend schedule. The notice stated:

> "In the U.S. and Mexico, Kansas City Southern will reduce switching service to the industries we directly serve beginning April 6 in observation of Good Friday and Easter weekend. In Mexico, service will also be reduced on April 5 in observation of Holy Thursday. Through train service will continue over the weekend. Industry service requests for these days should be emailed to the Customer Solutions Center by 10:00 a.m. on March 26. Service requests will not guarantee service on the day requested. Once all requests are received, the local operation will attempt to secure resources to perform service. If no message is received, it will be understood that no service is needed. Through train operations may also be reduced beginning April 6 through Easter weekend as volume dictates. Service requests are not necessary for through train service."

Planning in advance for service interruptions within your lane over the Easter Holiday is crucial. Contact your local trainmaster for any schedule changes.

Learn more at:
www.kcs.com

North American Railcar Fleet Expands

The number of North American railcars rose 0.1 percent in the last three months of 2011 compared to the previous quarter, but the deployed fleet still hasn't recovered to pre-recession size, according to Railinc.

The total size of the rail equipment fleet in North American rose to 1,944,695 units in the fourth quarter, with the most growth being seen in the addition of end-of-train devices, 2 percent; and intermodal flatcars, 1 percent. The boxcar fleet shrank 1.4 percent, and the pool of hoppers decreased 0.8 percent, according to the subsidiary of the Association of American Railroads.

The contraction of the deployed railcar fleet has decreased, with total units in 2011 down 0.6 percent year-over-year, compared with a 3 percent decrease in the same period in 2010. The expansion of domestic energy helped drive the growth of the sub-fleets of covered hoppers (1 percent) and tank cars (0.3 percent). Deployed boxcars, the smallest sub-fleet of revenue-earning equipment, in 2011 shrank 4.6 percent year-over-year.

Read the entire article:
http://www.joc.com/equipment/north-american-railcar-fleet-expands

Umler and Early Warning Joint Release

Effective March 29, 2012, Railinc will be making effective a joint release of the Umler application (Release 4.1) and the Early Warning application (Release 2.0)

Changes will be made to the following applications:

- ✓ **Expiration of Early Warning (EW) Notices**
- ✓ **Application and Removal of XX Mechanical Restriction**
- ✓ **XX and Existing Mechanical Restrictions**
- ✓ **EW Notices Expiring in April**

On March 12, 2012, Railinc sent an e-mail notice to customers informing them that effective March 29, 2012, Railinc will be making effective a joint release of the Umler application (Release 4.1) and the Early Warning application (Release 2.0). Functions and changes to these applications are as follows:

Expiration of Early Warning (EW) Notices

The major purpose of these releases is the handling of rail equipment assigned to an Early Warning (EW) notice when the notice expires. In accordance with AAR Circular C-11479 issued on July 14, 2011, equipment that is still assigned to an EW notice when the notice expires will become restricted from interchange. Note that this applies to EW notices only, not to Maintenance Advisory (MA) notices.

Application and Removal of XX Mechanical Restriction

The restriction from interchange will occur on the day following the expiration of an EW notice in the Early Warning system. Cars that are still assigned to the notice will receive a mechanical restriction of “XX” – restricted from interchange due to Early Warning expiration – in the Umler system. When the car has been removed from the expired EW notice via the reporting of a final inspection in the Early Warning system, Umler will remove the XX mechanical restriction from the car.

XX and Existing Mechanical Restrictions

The XX mechanical restriction will not be applied to a car that is already restricted in Umler due to some other reason. This includes cars having a mechanical restriction of SX, S_, YA, or any mechanical restriction beginning with X, for example XA, XB, XJ, XZ, etc. However, if a car’s other mechanical restriction is subsequently removed, and that car is assigned to an expired EW notice, the car will then receive an XX mechanical restriction in Umler. Cars that receive an XX in Umler will not become zero-rated as a result.

EW Notices Expiring in April

The following EW notices are due to expire in early April 2012. Note that not all of these notices have cars assigned to them. The contents of each notice, and any cars currently assigned to it, can be found by querying the Early Warning system.

EW-5145	EW-5220	EW-5248	EW-5253
EW-5167	EW-5228	EW-5249	EW-5254
EW-5192	EW-5231	EW-5250	EW-5255
EW-5210	EW-5235	EW-5251	EW-5256
EW-5211	EW-5239	EW-5252	EW-5257

Once the necessary corrective action has been taken, reporting an allowable final inspection code for a car will remove it from the notice so that it will not be subject to XX in Umler.

A complete list of the maintenance items included in this release will be available on the Umler Home page in the News and Information section.

Learn more at:
www.railinc.com

Mechanical Brief with Steve Christian

Inspections and preventative maintenance programs work

Our knowledge of the railcar market, fair market values and future market placement has garnered us the distinguished honor and responsibility of appraising rolling stock. Be it used railcars or locomotives for lease renewal, purchase options, refinancing or adjusting internal capital expenditures and maintenance programs, we take the responsibility seriously.

I was asked recently to perform an evaluation of a group of aluminum built rapid discharge open top hoppers. These cars were constructed almost identically to the steel rapid discharge cars that preceded them. Prior to the inspection, I had told my colleagues that I could probably do a write-up of the cars from my desk based on my past inspections of cars of this vintage and the type of service that they were in. I'd seen similar cars enter the repair shop for years and knew what to expect and I could almost make the list out in my sleep. Here is what I expected to find:

- Aluminum doors that were bent, cracked, twisted
- Bent door shafts
- Spool valves with hammer marks
- Cracks, dents and tears in the aluminum side sheets and slope sheets
- Interior bracing that was bent, bowed and ripped out
- Wavy side sills and top chords
- Worn out draft systems
- Worn out trucks with signs of truck hunting

These cars are proof that a superior inspection and preventive maintenance program really pays off

You can imagine my surprise when, during the on-site inspection, my findings were dramatically different. Following years of customer inspections, timely repairs and an excellent preventative maintenance program, these cars were nothing how I'd expected them to be. In my estimation, these cars were given periodic inspection and defects were promptly and professionally addressed. I found builder engineered fixes to remedy issues that appeared after the cars had been in service. The fixes remain effective to this date.

This is a testament to effective periodic inspection and maintenance. These cars are proof that a superior inspection and preventive maintenance program really pays off. If you need help identifying a PM program for your equipment or if you need an appraiser to identifying value for your fleet, we'll be honored to help.

*Steve Christian is the Manager Value Creation-Railcar Performance Manager for Tealinc, Ltd. You may contact Steve directly out of our Nebraska office at (308) 675-0838 or via email at **steve@tealinc.com**.*

U.S. freight traffic mixed for February 2012

February's average intermodal units per week third highest ever for a February

"If you exclude carloads of coal and grain, which are down for reasons that have little to do with the state of the economy, rail traffic in February was encouraging"

U.S. containerized exports reach record high, up 6 percent in 2011

Railroad Traffic

The Association of American Railroads (AAR) today March 8, 2012 that U.S. rail carloads originated in February 2012 totaled 1,410,992, down 27,555 carloads or 1.9 percent, compared with February 2011. Intermodal volume in February 2012 was 1,122,458 containers and trailers, up 26,284 units or 2.4 percent compared with February 2011. February's average of 224,492 intermodal units per week was the third highest ever for a February for U.S. railroads.

Fourteen of the 20 commodity groups tracked by AAR showed gains in February 2012 compared with the same month last year, including motor vehicles and parts, up 14,995 carloads or 22.1 percent; petroleum and petroleum products, up 9,347 carloads or 28.7 percent; steel and other primary metal products, up 8,833 carloads or 18.1 percent; crushed stone, gravel, and sand, up 7,715 carloads or 10.9 percent; and metallic ores, up 3,297 carloads or 15.7 percent.

Commodities with carload declines in February were led by coal, down 70,583 carloads or 10.6 percent from February 2011. Other commodities with declines included grain, down 8,009 carloads or 7 percent; nonmetallic minerals, down 1,966 carloads or 8.5 percent; and farm products excluding grain, down 514 carloads or 11.3 percent. Carloads excluding coal and grain were up 7.7 percent or 51,037 carloads in February 2012 over February 2011.

"If you exclude carloads of coal and grain, which are down for reasons that have little to do with the state of the economy, rail traffic in February was encouraging," said AAR Senior Vice President John T. Gray. "Intermodal traffic was up for the 27th straight month, while carloads of a wide range of commodities—lumber, chemicals, petroleum, paper, steel and more—saw increases in February. Time will tell, but we're hopeful it's a sign of broad-based improvement in economic conditions."

Visit the AAR at:
http://www.aar.org/NewsAndEvents/Freight-Rail-Traffic/2012/03/08-railtraffic.aspx

Industrial Inside

U.S containerized exports in 2011 grew 6 percent over 2010 volumes, advancing to a new record annual total of 11.9 million 20-foot-equivalent units. A year-over-year decline of 0.2 percent in fourth quarter exports matched earlier forecasts by Mario O. Moreno, economist for The Journal of Commerce/PIERS.

This decline to 3,002,088 TEUs was due primarily to losses in fabrics, including raw cotton, down 29 percent; pet and animal feeds, down 12 percent; synthetic resins, and foam waste and scrap, both down 12 percent; and motor vehicles, down 7 percent. Losses in raw cotton and resins were spurred by a sharp deceleration in manufacturing in the Mediterranean, where U.S. containerized exports declined for the second

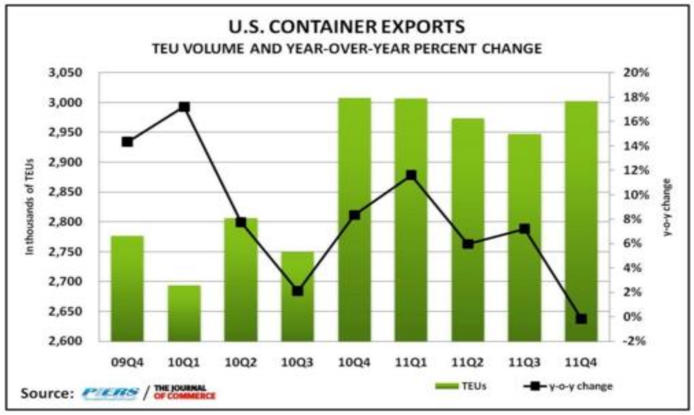
U.S containerized exports in 2011 grew 6 percent over 2010 volumes, advancing to a new record annual total

Declining economic activity in Europe will have an adverse impact on U.S. container exports growth

Federal Reserve Chairman tells ABC economic recovery has 'long way to go'

"The financial system looks stronger and more stable; [However], the housing market is still 'pretty flat,'

consecutive quarter, to 136,599 TEUs.



Year-over-year exports to Northeast Asia rose 1 percent to 1.3 million TEUs, but this was down from a 12 percent growth in third quarter 2011.

"Actual fourth quarter figures confirmed what led me to downgrade my 2012 export forecasts in early December: declining economic activity in Europe will have an adverse impact on U.S. container exports growth. Meanwhile, the dollar will keep the gains against the euro until all European fiscal uncertainties have cleared," Moreno said.

Moreno's prediction of a sharp deceleration in westbound trans-Pacific trade was also confirmed with Q3 growth of 11.4 percent slipping to a 0.8 percent year-over-year increase in Q4.

A full analysis of the JOC/PIERS findings is available online at **www.joc.com**.

Financial Focus

The U.S. economy is not yet on a certain path to a full recovery, Federal Reserve Chairman Ben Bernanke said in a televised interview with ABC News on March 27, 2012.

"It's far too early to declare victory," Bernanke said in an interview with ABC's Diane Sawyer, according to a transcript of the interview to be aired Tuesday night on "World News." The Fed chief acknowledged a brightening in the recent economic data, noting that new jobs have been created and that measures of consumer and business sentiment have improved. And Europe's fragile economy has become less worrisome recently, he said.

"The financial system looks stronger and more stable," Bernanke said. However, he cautioned that the housing market is still "pretty flat," long-term unemployment remains a problem and that the current 8.3% jobless rate is still too high.

"We need to be cautious and make sure this is sustainable," Bernanke said. "We haven't quite yet got to the point where we can be completely confident that we're on a track to full recovery."

long-term unemployment remains a problem and that the current 8.3% jobless rate is still too high

Bernanke's comments March 27 amplified cautionary remarks he made in a speech March 26 on the jobs market. Bernanke focused March 26 on the problem of long-term unemployment, saying the central bank will need to keep interest rates low for a long time to confront the deep problems in the labor market.

In the March 27 interview, Bernanke said it could be a "few more years" until the unemployment rate reaches a more normal level.

"Unless we get faster growth than we've been seeing, it is probably gonna take a while still," Bernanke said.

When asked whether the central bank planned a third round of bond-buying to boost the economy, Bernanke said the Fed was prepared to respond to "however the economy evolves" and hadn't ruled out any options.

Bernanke sounded a note of concern over the recent rise in oil and gasoline prices, calling them a "major problem" creating a "moderate" risk to the economy. The higher gasoline prices may cause inflation to be "a little bit higher" in the next few months and could dent consumer spending, the Fed chief said.

Bernanke sounded a note of concern over the recent rise in oil and gasoline prices, calling them a "major problem" creating a "moderate" risk to the economy

"They're obviously a hardship for lots of people," Bernanke said. "It must be awfully frustrating to get a small raise at work and then have it all eaten by a higher cost of commuting."

But Bernanke didn't expect gasoline prices at their current level to create a major impediment to economic growth.

"We don't think it's going to be anything that's going to stall the recovery," he said. Bernanke told congressional lawmakers earlier this year that higher gas prices could create temporary inflation pressures, but were unlikely to disturb the Fed's expectations for stable prices in the longer term.

Higher gasoline prices may cause inflation to be "a little bit higher" in the next few months and could dent consumer spending… "We don't think it's going to be anything that's going to stall the recovery"

Bernanke sidestepped political questions, demurring to speculate on how long he would remain at the Federal Reserve or to respond to critiques from Republican presidential candidates.

The Fed is nonpartisan, he said. "We're not paying any attention to election calendars or political debates."

Learn more at:
http://blogs.wsj.com/economics/2012/03/27/bernanke-tells-abc-economic-recovery-has-long-way-to-go/

The Edge

When one looks at the economy from a railcar perspective it's apparent that the economy is still creeping out of the doldrums. We've talked with a lot of Lessors, Lessee's, and railcar shippers lately and there still seems to be a mixed economic message. In some cases many claim without the energy boom in oil shale there wouldn't be as good of demand as we're seeing now. In other cases many are waiting on the cusp for a decent demand reconciliation of the grain crop so when new crop is harvested it has somewhere to go, preferably in the export market. We're seeing some uptick in finished lumber demand and some tornado fallout in increased demand for poles to replace destroyed infrastructure. The waste business (MSW, Contaminated Soil, C&D, etc.) has seen a slight increase in demand, steady but not exceptional. Crude oil and coal are on opposite ends of the spectrum with extreme increases in crude oil carloads shipped to tens of thousands of coal cars parked due to the natural gas prices. Scrap and recyclables are steady to on the high side with many seeking scrap to process for nearby steel processing demand.

Overall we're back into somewhat tumultuous times with a fluttering economy.

In times like these we're often asked our opinion on operations issues and investments. These are two different items but often interrelated. Operations issues either stem from personnel issues or require investments to solve. The first approach should be to attempt to train your way out of the situation. A good situational analysis will result in the cause and effect of the problem or issue at hand and give you at the least a direction to pursue. If you're not certain of how to solve the personnel training issue ask for help from someone that has the expertise. The next step should be to check your processes to be sure they are working. Are the right communications (written, verbal and ecommerce) being conveyed in the manner in which they should? Last on your list should be to conduct a financial analysis to determine investment and payback parameters necessary to create the desired result.

We look forward to earning your business!