August 2020

Specializing in Rail Transportation Solutions

Tealinc Touchbase Tidbits

with Darell Luther, CEO of Tealinc, Ltd.

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Railing On……

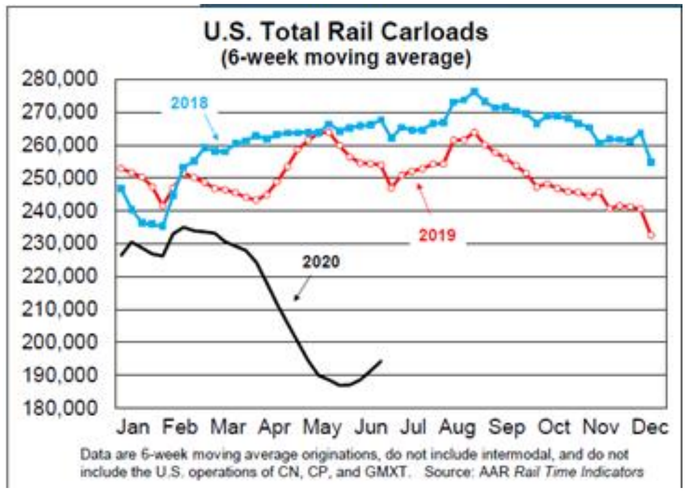
Welcome to August 2020. There's a lot going on in everyone's world right now, and we're all wondering when things will turn around. The coronavirus impacts, such as social distancing, wearing masks, cleaning after you've already cleaned a number of times, etc. seems to be a new normal—we're hoping a temporary new normal.

In reviewing industries for this newsletter, it seems no one has escaped the impacts of the virus. There are several hundred thousand railcars parked, reflecting industries that may never recover from the shutdown. Other industries are healthy now and hoping for a recovery soon so they can remain healthy and possibly grow. Regardless of these impacts, we see a bright light in the resilience of the American industrialist.

Tealinc is growing at a somewhat slower pace, but growing nonetheless. We want to thank our many new customers for their business and offer a deep appreciation to our existing customers for trusting their rail and railcar business to us.

We certainly would appreciate the opportunity to add your company to our sphere of successful businesses. We hope you find this short newsletter informative, and we look forward to visiting with you in the future.

Railcar Supply



The new railcar supply numbers continue to go through some assemblance of rationalization. New railcar supply delivered during the second quarter declined by 10,824 units from the first quarter, totaling 8,441 railcar deliveries, according to an article in Progressive Railroading. The railcar backlog was at 39,612 units on July 1, down 6,718 units from the April 1 backlog.

North American rail freight-car loadings continue to lag previous years; June 2020 saw a 22.4% decline in railcar loadings from June 2019. Despite the 22.4% decline, the losses aren't as drastic as reported in prior months, showing some slowing of the impacts of the recession.

The decreases include, in order of impact: coal; crushed stone, sand, and gravel; autos and auto parts, petroleum products, lumber and wood products, pulp and paper products, primary metals, iron and steel scrap, and metallic ores.

Stored railcars continue to be high, at 32% of the total North American rail fleet in storage. Covered hoppers lead the charge, mainly frac sand railcars and grain railcars. Neither of those markets are very healthy at this point. Tank railcars are next, followed by coal railcars. For more information, check out the Association of American Railroads site.

This supply surplus is generating a lot of angst in the railcar owner world right now. In a quick survey of railcar owners, we hear hope that demand will recover with the reduction in COVID-19 cases—or an increase in scrap prices, which will help absorb some of the older railcars. Some believe that new railcar building reductions would have to cease for two years before demand could catch up with supply, in addition to an increase in railcar loading demand and a good scrap market.

North American Freight Cars in Storage by Major Car Type
(as of July 1, 2020)

Car Type	Primary Commodities	Total Cars In Service	In Storage	Percent In Storage	Percent of Stored Cars
Box	Paper products, wood products, food prod.	103,017	26,858	26%	5%
Covered Hoppers	Grain, chemicals, nonmetallic minerals	572,214	170,006	30%	32%
Flats	Containers, trailers, lumber, steel, autos	75,032	24,960	33%	5%
Gondolas	Coal, nonmetallic minerals, metals, scrap	204,784	67,324	33%	13%
Hoppers	Coal, metalic ores, nonmetallic minerals	125,971	49,375	39%	9%
Intermodal	Containers, trailers	74,043	16,002	22%	3%
Refrigerator	Food products, farm products, chemicals	10,762	4,578	43%	1%
Tanks	Chemicals, petroleum, food products	437,151	156,038	36%	30%
Vehicle Flat	Autos	65,702	11,309	17%	2%
Grand Total		1,668,676	526,450	32%	100%

Source: Association of American Railroads

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Ocean Freight

Ocean freight rates have a lot to do with the size of the vessel and the origin and destination. According to American Shipper, dry bulk ship rates have been slashed in half. Rates for 180k ton dead weight bulkers are down to roughly $17,000 per day, which is about half of the $33,000 per day peak on July 6, 2020. World unrest, coronavirus, cost of money, and trade issues are affecting every type of transportation.

Steel Industry

As reported in *Recycling Today,* by the American Iron & Steel Institute (AISI), the United States produced 1.29 million net tons of steel during the week of July 11, 2020—a capacity utilization rate of 57.5%. Although this is an increase of 1.7% from the prior week, it's still under the previous year's average by 30.2%. Several facilities have restarted (or plan to restart) idled blast furnaces, cautiously hoping demand will strengthen.

Cost to Transport Grain

Progressive Farmer recently came out with an interesting topic on its Market Matter blog: a review and some insight into what it costs to transport grain to a final market. The model includes data points for the cost from the farmer to the final buyer, and not only rail, truck, and barge rates, but also the costs of delays, handling, storage, and trading. It's an interesting view of the pieces of the transport and logistics process. The model, developed by Texas A&M Transportation Institute, is worth a look.

Yes, we have railcars available!

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- 4750 cube covered hoppers with load limits of 203,000 pounds. Ideal for grain, salt and fertilizer. End-of-term lease options with no mechanical turnback costs.
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AAR 50-year Interchange Life

We often receive questions about the interchange life of general service freight railcars. For railcars built on or after July 1, 1974, as long as it meets the current AAR mechanical requirements (AAR Rule 88), it can legally be interchanged for 50 years from the month and year built. Those build prior to July 1, 1974 have a 40-year interchange life. Therefore, a railcar built on January 1, 1975 would interchange through January 1, 2025 (1975+50=2025). A railcar built on January 1, 1974 would have expired interchange life on January 1, 2014 (1974+40=2014).

As with all good rules, there are some exceptions. One is if a hauling railroad gives the car owner mechanical clearance on their railroad. This is a rare exception because the liability of the railcar's operations becomes that road's responsibility. Generally, only maintenance of way railcars or overage railcars moving on their own wheels to a scrap yard are excepted. Another exception is the ability to add ten years of interchange life through a very involved process requiring engineering, structural testing, AAR approvals, etc. I'm not aware of any company that has done this process, simply because it's difficult to recoup the investment in a ten-year time frame.

Tank railcars have their own set of interchange rules commiserate with the product they're handling. They vary drastically from general service freight railcars, and should be reviewed by an expert before investing.

Tealinc Update

We've added a new Manager of Value Creation, Finance and Administration. Her name is Yvonne Lufborough, and her finance and accounting experience runs deep. She's a CPA and was most recently a partner in an accounting firm. We're happy to have her on board.

Kristen Kempson continues to surface railcar opportunities in a very difficult market. She'd enjoy hearing from you, whether you're buying, selling or leasing railcars. She can be reached at Kristen@tealinc.com or by phone at (708) 854-6307.

Shannon Rodgers is successfully implementing maintenance management programs for a host of customers. If you'd like to discuss a managed maintenance program and take the game of chance out of managing and repairing railcars, give Shannon a shout at (814) 631-9277 or Shannon@tealinc.com.