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New feature will allow Union Pacific customers to retrieve a through rate

Short-line association rallies support from politicians, shippers for tax-credit extension bills

Association and lobbyists also have convinced more than 1000 rail shippers and local economic development officials to endorse legislation

Railroad Updates

Union Pacific Announces Price & Transit Time Enhancement

On July 20 the Union Pacific Railroad announced that it added a new feature to their "Price & Transit Time Inquiry System." In the past, if a through rate was requested in this system in which the Union Pacific did not have coverage for, the only option to get a price was to contact a Union Pacific representative through an on-line rate request or a phone call or e-mail. The new feature will allow Union Pacific customers to retrieve a through rate on the system allowing information pertaining to the interchange point to be made available in the system. The Union Pacific says it hopes you will enjoy the quicker response time that its updated system is now able to provide.

Learn more at:
www.up.com

ASLRRA Rallies Support From Politicians, Shippers For Tax-Credit Extension Bills

The short-line industry continues to garner political support for legislation aimed at extending a tax credit law beyond 2007.

As of July 26, 112 U.S. House members had signed on as co-sponsors of the Short Line Railroad Investment Act of 2007 (H.R. 1584), which would extend the tax credit's expiration date from Dec. 31, 2007, to Dec. 31, 2010; minimize the Alternative Minimum Tax's impact on credits; provide tax-credit eligibility for new short lines formed between Jan. 1, 2005, and Jan. 1, 2007; and increase the mileage-based credit limitation from $3,500 to $4,500.

In addition, 30 senators had agreed to co-sponsor companion bill S. 881, according to the American Short Line and Regional Railroad Association (ASLRRA), which is promoting the legislation in conjunction with lobbyist firm Chambers, Conlon & Hartwell L.L.C.

"I am particularly encouraged by the fact that our co-sponsors are split almost evenly between Democrats and Republicans," said ASLRRA President Richard Timmons in a prepared statement.

The association and its lobbyists also have convinced more than 1,000 rail shippers and local economic development officials to endorse the legislation.

"There is growing unanimity among railroad customers that the short-line tax credit has contributed to more competitive, efficient and safer railroad service," said Russ Harrison, owner of rail shipper Harrison Gypsum and chairman of short-line shipper coalition Saving Our Service. "The 1,000 customer facilities that have endorsed the tax credit extension range from the smallest family owned grain elevators to larger facilities owned by such companies as International Paper, Kimberly-Clark, General Mills and Nucor Steel."

Enacted in 2005, the Railroad Track Maintenance Credit (Section 45G of the U.S. tax code) enables regionals and short lines or other eligible taxpayers to earn 50 cents in tax credits for every dollar spent on qualified infrastructure improvements. The credit cap is determined by multiplying track miles owned or leased by $3,500.

Read the entire article:
http://www.progressiverailroading.com/prdailynews/news.asp?id=11129

AAR Updates

Ample coal inventories ensure air conditioned comfort for Americans

As summer temperatures soar, Americans can relish the fact that the nation's railroads have provided electric utilities with ample coal supplies to generate enough electricity to keep everyone in air conditioned comfort the Association of American Railroads reported July 26.

In fact, the coal supply at electric utilities has reached its highest level in more than a decade — over 156 million tons — according to the Energy Information Administration's monthly flash estimate on coal inventories for May. This represented a 17.6 percent increase from year-ago levels and a 4.4 percent jump from April.

The coal supply at electric utilities has reached its highest level in more than a decade

"There has been an unprecedented amount of cooperation among railroads, coal companies and electric utilities to ensure that there will be enough coal on hand to withstand even the hottest days of summer," said Edward R. Hamberger, president and CEO of the Association of American Railroads (AAR). "That cooperation was especially productive earlier this summer when floods in the Midwest and Southwest created additional transportation challenges," he added. That flooding caused some delivery delays, but those problems are being rapidly eliminated.

Idaho Power spokesman Dennis Lopez agreed that coal supplies are strong. "We have adequate coal supplies at all of our plants to see us through this heat wave and beyond," he said in the July 10 issue of Platts Coal Trader newsletter.

"Railroads worked overtime last year to ensure that utilities would have enough coal on hand to meet the needs of their customers," Hamberger said. "And those inventories have continued to grow this year." He noted that railroads are planning to spend a record $9.4 billion on capital improvements this year so that they can be prepared to handle even more coal and other products in the future.

"Some of that money is going toward additional locomotives, more freight cars and expanded track capacity," Hamberger said. He pointed to programs to add triple and quadruple track in the Powder River Basin as an example of how railroads are investing to handle even more coal in the future.

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

"Railroads are well-prepared for continued growth in the coal market," Hamberger said, adding, "If Congress passes the bi-partisan Freight Rail Infrastructure Capacity Expansion Act (S. 1125 and H.R. 2116), introduced by Senators Conrad and Lott and Representatives Meek and Cantor, it will help ensure that we continue to meet those needs."

That legislation would provide a 25 percent tax credit for any business investing in new rail track, intermodal facilities, rail yards, locomotives or other rail infrastructure expansion projects. The legislation has been endorsed by a wide range of rail customers including the National Mining Association, the American Association of Ports Authorities, the National Retail Federation, the U.S. Chamber of Commerce and the Alliance of Automobile Manufacturers.

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Railroad Traffic

U.S. Rail Traffic Down in June

U.S. freight railroad carload traffic fell 2.7 percent in June 2007

U.S. freight railroad carload traffic fell 2.7 percent in June 2007 compared with June 2006, while intermodal traffic fell 1.8 percent compared with the same month last year, the Association of American Railroads (AAR) reported July 5.

Overall, U.S. railroads originated 1,344,296 carloads of freight in June 2007, down 2.7 percent from June 2006. U.S. railroads also originated 961,545 intermodal units in June 2007, a decrease of 17,956 trailers and containers (1.8 percent) from June 2006.

"Most economists are fairly upbeat about economic growth in the second half of this year, and when the economy does pick up, we can expect rail volumes to rise commensurately"

"Rail volumes remained relatively soft in June, though they are up against some very strong comparisons from last year," noted AAR Vice President Craig F. Rockey. "Most economists are fairly upbeat about economic growth in the second half of this year, and when the economy does pick up, we can expect rail volumes to rise commensurately," Rockey added.

Six of the 19 major commodity categories tracked by the AAR saw carload increases in the United States in June 2007 compared to June 2006, led by metallic ores (up 14.7 percent) and chemicals (up 3.6 percent). Ethanol, a small but rapidly-growing rail traffic segment, is included in the "chemicals" category.

Commodities showing carload declines in June 2007 included crushed stone, sand, and gravel (down 9.6 percent); coal (down 1.6 percent); grain (down 6.0 percent); and metals and metal products (down 7.0 percent).

In the second quarter of 2007, total U.S. rail carloadings were down 3.3 percent while intermodal traffic, which consists of trailers and

At this pace, 2007 will be the second-highest year for U.S. intermodal traffic in history, behind only 2006

containers on flat cars and is not included in carload figures, was down 2.6 percent.

For the first half of 2007, total U.S. rail carloads were down 4.1 percent, as year-over-year increases in chemicals (up 2.2 percent) and petroleum products (up 5.7 percent) were not enough to offset declines in crushed stone, sand, and gravel (down 11.0 percent); coal (down 1.7 percent); and motor vehicles and equipment (down 9.6 percent), among others.

U.S. intermodal traffic was down 1.3 percent for the first six months of 2007 to 5,952,375 units. At this pace, 2007 will be the second-highest year for U.S. intermodal traffic in history, behind only 2006.

Total volume through the first half of 2007 was estimated at 857.9 billion ton-miles, down 2.8 percent from the first 26 weeks of 2006.

Canadian rail carload traffic was up 1.8 percent in June 2007. In June, carload gains for chemicals (up 16.6 percent), coal (up 4,242 14.7 percent), and metals and metal products (up 22.8 percent), among others, offset declines in carloads of grain (down 13.4 percent), lumber and wood (down 16.4 percent), and primary forest products (down 21.0 percent), among others.

Canadian intermodal traffic was up 4,226 units (2.3 percent) in June 2007 compared with June 2006, to 187,915 units.

Combined cumulative rail volume for the first half of 2007 on 13 reporting U.S. and Canadian railroads totaled 10,463,512 carloads, down 3.4 percent (372,434 carloads) from last year, and 7,129,855 trailers and containers, down 0.8 percent (58,577 units) from 2006.

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

Industrial Inside

USDA reports that current crop conditions still point toward large 2007 corn, soybean, and cotton crops. Encroaching drought conditions, however, could reduce crop potential in some areas.

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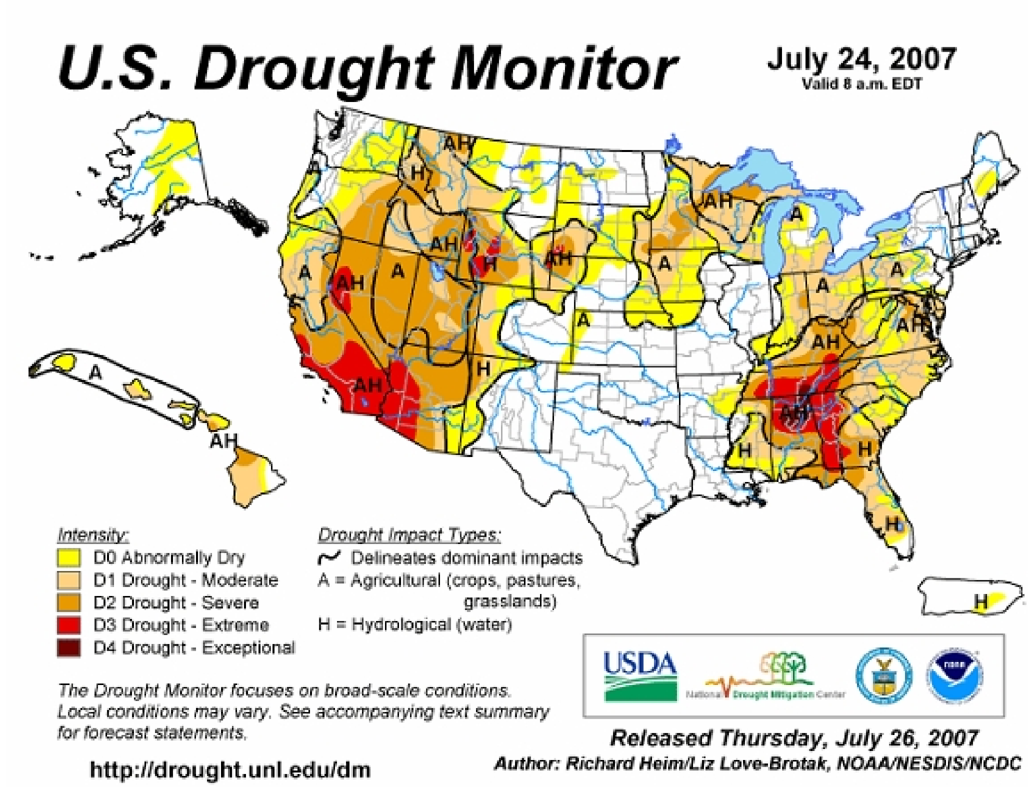
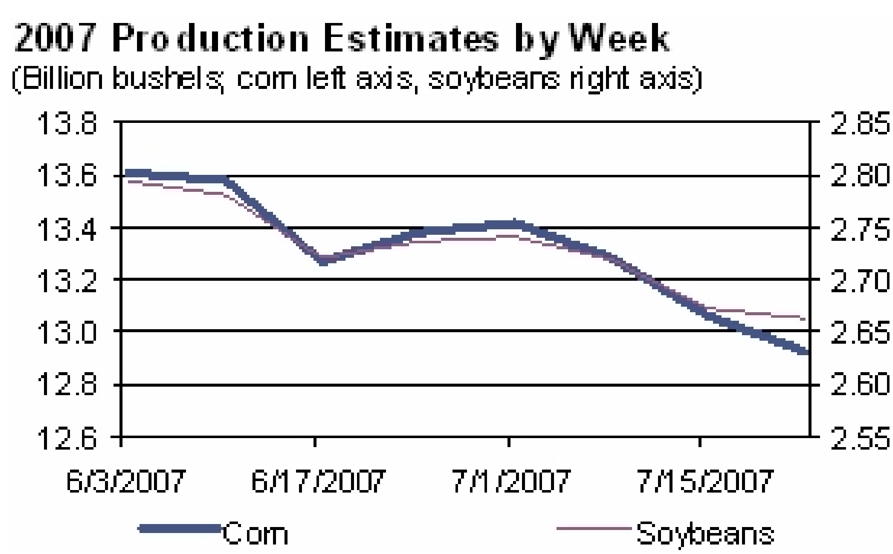
As USDA's drought monitor indicates, drought is encroaching on the Corn Belt where the majority of corn and soybean are grown. However, much of the corn is already mature, reducing the impact of dry conditions late in the season. Crop conditions as of July 22 still indicate a corn crop of 12.9 billion bushels is on its way.



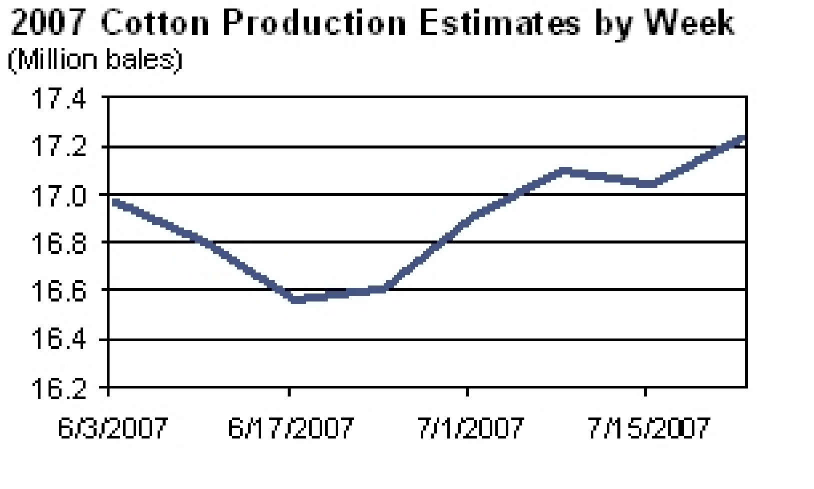
Crop conditions continued to indicate that U.S. soybean yields will be above trend

Crop conditions continued to indicate that U.S. soybean yields will be above trend with a yield estimate of 42.2 bushels per acre and a total crop of 2.7 billion bushels. The soybean crop, however, is further away from maturity and still needs rainfall.



Cotton crop conditions continue to improve

Cotton crop conditions continue to improve and the 2007 crop is now estimated at 17.2 million bales. Improvement in crop conditions in Georgia, Louisiana, South Carolina, and Tennessee has driven much of the increase in production estimates.



If the drought continues to worsen and spread, there is still potential for significant damage to the soybean crop

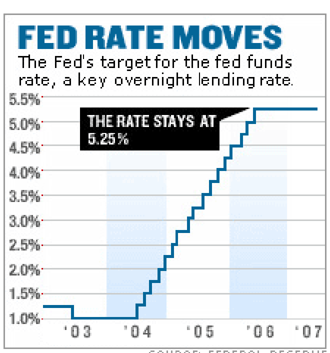
But some areas are clearly showing stress, particularly in the southeastern United States and the eastern edges of the Corn Belt. Ohio, North Carolina, Mississippi, Alabama, and Florida are showing clear signs of stress. Consider the difference in southeast soybean yields and corn yields as a percentage of trend. Corn is estimated at 91% of trend, but soybeans are estimated at only 76% of trend in Alabama, reflecting worsening drought conditions. If the drought continues to worsen and spread, there is still potential for significant damage to the soybean crop.

Read more at:
http://www.globalinsight.com/Perspective/PerspectiveDetail10098.htm

Financial Focus

Federal Reserve left a key short-term interest rate unchanged

The Federal Reserve left a key short-term interest rate unchanged during its last meeting July 26 and indicated it was still worried about inflation, a sign the central bank will leave rates alone for a while instead of cutting them despite concerns about a sluggish economy.



The central bank, as widely anticipated, kept its target for the federal funds rate, an overnight bank lending rate that affects credit card, home equity and other loan rates, at 5.25 percent.

This was the eighth straight time that Fed Chairman Ben Bernanke and the rest of his policy-making committee took no action on rates after raising them 17 straight times, through June 2006, in order to fight inflation.

Although oil prices have crept back up toward $70 a barrel, several economists have said inflation should not be the biggest worry for the Fed. "It's interesting that the Fed says inflation is still its top concern. What does inflation have to do? It is moderating as expected. I think the Fed is a little more hawkish than they need to be," said David Kelly, an economic advisor at Putnam Investments.

Still, others said the Fed cannot ignore the rise in oil prices and the

Increased prices for oil and food are also key barometers of inflation

Fed says "Growth appears to have been moderate during the first half of this year, despite the ongoing adjustment in the housing sector"

recent spike in the prices for things like milk and corn. Even though so-called core inflation, which excludes volatile energy and food prices, may be tame, increased prices for oil and food are also key barometers of inflation.

"The Fed is trying to alert the markets that core inflation is back to where it likes it but headline inflation is at levels it doesn't like," said Richard Yamarone, director of economic research with Argus Research Corp. "The Fed realizes we don't reside in this no-food, no-gasoline world and that it appreciates how important increases in those prices are."

Brian Bethune, U.S. economist with Global Insight, an economic forecasting firm, added that no matter what the Fed really thinks about inflation, it should come as no surprise that the central bank still lists it as the top risk since it is the Fed's main job to monitor inflation.

"The whole statement was very much in line with market expectations and that's generally positive. The markets don't like to be surprised. I could have written this thing verbatim myself yesterday," Bethune quipped.

Corn and milk: A 1-2 inflation combo

But Kelly and other economists argue that woes in the housing market should be a bigger concern, particularly since rising long-term bond yields have the potential to further dampen demand for mortgages and home buying.

"I think the economy is more vulnerable to a slowdown and the Fed may have mischaracterized the balance of risks here," Kelly said.

The Fed noted in its statement that "growth appears to have been moderate during the first half of this year, despite the ongoing adjustment in the housing sector." And it added the economy "seems likely to continue to expand at a moderate pace over coming quarters."

With that in mind, another economist said the Fed should pretty much be on cruise control for the foreseeable future. As long as the job market remains relatively strong, the Fed will keep focusing on inflation. But it won't want to cause further harm to the housing market by raising rates.

"The Fed won't cut rates as long as unemployment remains around 4.5 percent but there's no reason to tighten with the economy operating below potential. So there will be no change in policy in the near future," said Mark Zandi, chief economist with Moody's Economy.com, an economic research firm.

Wall Street seemed to agree. According to fed funds futures contracts on the Chicago Board of Trade, the likelihood that the Fed would cut rates by year's end decreased following the Fed announcement.

"…looks like the economy is heading for a soft landing"

Global Insight's Bethune added that the Fed is in a good spot right now since inflation is easing and there does not appear to be any major risk of a recession.

"The Fed obviously has to be subdued but they are probably reasonably happy. The decision to keep rates steady for the past year has been vindicated," he said. "Trying to gently squeeze inflation out of the system is an extremely difficult thing to accomplish but it looks like the economy is heading for a soft landing."

Learn more at:
http://money.cnn.com/2007/06/28/news/economy/fed_rates/index.htm?postversion=2007062816

The Edge

It's hard to believe but summer is almost over. I know it's still 100 degrees in many parts of the country including at our offices in British Columbia, Montana and Colorado. Nonetheless it's looking like fall is approaching on the calendar and it's back to school time for many.

We've been doing an inordinate amount of consulting this year much of it focused on educating customers about the intricacies of rail transportation. Face it, railroads don't make doing business with them an easy task. Our job, as consultants, isn't to necessarily make a difficult task easy. Our job is to make a difficult task understandable by our clients so they can plan and execute their transportation requirements while understanding all the variables and consequences of their decisions.

We're currently working on educational materials that we think would be beneficial to you our current and potential customers. We'd appreciate your feedback on what items you think would be beneficial to learn more about. Please quantify those items you'd like an introductory course on to those that you'd like an intensive microscopic review. We'll accumulate responses and see if there's enough interest to warrant going forward with some type of educational seminar. All responses will be kept confidential.

Please send your feedback to **webmail@tealinc.com**

We look forward to earning your business!