Touchbase

August 2011

In This Issue

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

Visit us at:
www.tealinc.com

Union Pacific sees rail oil shipments quadrupling in 2011

Railroad sees continued rail opportunity for oil

"One of the unique things that rail gives to customers is the opportunity to go to various places and to play to the extent they can the market advantages for themselves..."

Railroad Updates

Union Pacific Corp, the largest publicly held U.S. railroad, said it expects to quadruple the amount of oil it carries this year from the Bakken shale formation in North Dakota to U.S. Gulf Coast refineries.

"We'll probably quadruple the amount this year in terms of moving from the Bakken down to the St. James and elsewhere. We're seeing just a lot of interest overall," said Jack Koraleski, executive vice president of marketing and sales.

Koraleski said the company moved about 4,400 carloads of crude oil out of Bakken Shale in 2010. "We expect to move a little more than 16,000 carloads in 2011" Koraleski [added saying that] the railroad moved a total of 8.8 million carloads in 2010.

Prices of U.S. benchmark crude oil West Texas Intermediate Clc1 touched record lows against other crudes as supplies from Canada and the Bakken back up in the oil hub of Cushing, Oklahoma due to lack of pipeline capacity to carry it to the U.S. Gulf Coast for processing into gasoline and diesel.

The difference in price between WTI and global benchmark North Sea Brent LCOc1 grew to over $23 a barrel earlier this spring, and refiners scrambled for ways to take advantage of the cheaper WTI price, turning to rail, barges and trucks to carry oil.

"We're focusing exclusively on our own rail infrastructure to support it, and everything that we see, even as pipelines develop, tells us there's going to be a continued opportunity for rail in this marketplace going forward for a long time," he said

On Friday, July 22nd, the U.S. State Department said it expects to issue a final environmental assessment on a key pipeline - TransCanada Corp's proposed pipeline $7 billion pipeline - that would alleviate the backup of inventories of crude in Cushing.

Koraleski said that with additional capacity coming on stream from the Bakken and other plays like the Eagle Ford shale oil in southern Texas, Union Pacific is looking to develop additional capacity.

"One of the unique things that rail gives to customers is the opportunity to go to various places and to play to the extent they can the market advantages for themselves so we see a lot of interest in that," he said.

Read the entire article at: **http://www.reuters.com/article/2011/07/22/usrail-oilshipments-idUSN1E76L18M20110722**

From Floods to Mudslides, Adverse Weather Didn't Adversely Affect Railroads Results

Railroaders responded quickly and effectively to a series of weather challenges

Like many of its U.S. Class I counterparts, CN had to deal with significant flooding in the second quarter. The Canadian Class I also faced forest fires and mudslides. But despite those challenges, CN registered "solid" second-quarter financial results, said President and Chief Executive Officer Claude Mongeau in a prepared statement.

"CN railroaders responded quickly and effectively to a series of weather challenges," said Mongeau. "Their tireless efforts and dedication helped to protect the integrity of our network, the reliability of the supply chain we serve and our service to customers."

Intermodal — CN's largest revenue segment — was a "bright spot," driven by higher import volumes at the ports, and increased domestic retail shipments, said Mongeau. Domestic retail business will continue to benefit from the acquisition of 1,400 new containers, according to CN.

Operating expenses increased 8% to $1.4 billion primarily due to higher fuel, purchased services and materials, and labor and fringe benefits costs

However, operating expenses increased 8 percent to $1.4 billion primarily due to higher fuel, purchased services and materials, and labor and fringe benefits costs. Fuel expenses soared 38 percent to $353 million, purchased services and materials expenses climbed 7 percent to $268 million, and labor and fringe benefits expenses rose 4 percent to $432 million.

"While there is some growing uncertainty about the pace of growth of the U.S. and global economies, we believe our performance in the first half positions us to finish the year on a positive note," said Mongeau.

Amongst growing concern with the economy the railroads in the U.S. seem to be conquering and overcoming mother nature's obstacles.

Read the entire article at:
http://www.progressiverailroading.com/prdailynews/news.asp?id=27372

AAR Updates

Thousands of American jobs dependent on healthy freight rail industry

Business and labor leaders, government officials and rail industry employees representing more than 350,000 American workers from around the country met on Capitol Hill July 14, 2011, in support of policies that enable the freight rail industry to create jobs, continue record infrastructure investments, keep U.S. businesses globally competitive and aid America's economic recovery.

"Americans whose livelihoods depend on a healthy rail industry want Congress to know that freight rail is working for our country and carrying the load so taxpayers don't have to," said Association of American Railroads' President and CEO Edward R. Hamberger. "At a time when many industries are cutting back and businesses aren't hiring, freight rail is investing billions of its own capital and hiring American workers."

America's freight

"All across this country, businesses large and small depend on freight rail to deliver the goods and support their jobs. Our ability to continue investing so America's rail network remains the envy of the world is critical

railroads generate $265 billion in total annual U.S. economic activity and move one third of American exports

Our nation's freight railroads directly support over 150,000 manufacturing jobs in the railway supply industry

"At a time when people are out of work, freight rail is hiring... at a time when businesses are struggling, freight rail is delivering."

to our country's economic recovery."

America's freight railroads generate $265 billion in total annual U.S. economic activity and move one third of American exports, all while offering the lowest rates in the world. In addition to helping keep America economically competitive, the industry employs more than 175,000 workers in well-paying jobs—each of which supports another 4.5 jobs across the country and 1.2 million jobs across the broader economy in fields such as manufacturing and retail, Hamberger noted. In 2011, the country's freight railroads plan to spend $12 billion to grow and modernize the nation's rail network

"In addition to 175,000 rail industry jobs, our nation's freight railroads directly support over 150,000 manufacturing jobs in the railway supply industry," said Tom Simpson, president of the Railway Supply Institute. "We need a robust and vibrant freight and passenger rail network because it directly impacts the livelihood of our industry and the livelihood of our workers."

Rail industry advocates want lawmakers to maintain the reasonable regulatory structure that has spurred a railroad renaissance and made America's freight railroads the safest, most efficient, reliable and affordable in the world.

"America's short line and regional railroads are investing to preserve connections to thousands of local communities and small businesses across America," said American Short Line and Regional Railroad Association President Richard F. Timmons. "These same small railroads account for tens of thousands of jobs, both with the railroads themselves and the railroad customers which they serve."

"Now more than ever, it's imperative that sound transportation and tax policies be in place to encourage job creation and private-sector investment in our transportation future," said Timmons.

Rail advocates also support investment incentives such as the Section 45G tax credit which aids small, local short line railroads and the Section 130 program which provides dedicated funds to states for grade crossing safety projects. Participants oppose proposals to increase the size and weight of trucks on our nation's highways which would cause significant damage to our nation's highway infrastructure and divert traffic away from environmentally friendly freight railroads.

"At a time when people are out of work, freight rail is hiring," said AAR's Hamberger. "At a time when businesses are struggling, freight rail is delivering. Through good times and bad, we plan to keep moving for the people and customers who depend on us—and that's exactly what we need Congress to let us keep doing."

You can learn more at: **http://www.aar.org/NewsAndEvents/Press-Releases/2011/07/14-RR-Hill.aspx**

Mechanical Brief with Steve Christian

There are a significant amount of industry lines and industry tracks that have problems with their roadbed, ties, gauge, alignment, elevation, frogs and switches that create a condition whereby railcar tracks dictate an unjustified need for railcar maintenance

Don't defer maintenance on your industry tracks

June freight rail traffic makes slight gains

June 2011 traffic increased 0.9% compared with June 2010

Industry Track Condition and Its Effect on Railcar Maintenance Costs

The Class I railroads have poured enormous money into their track. High capacity, state of the art track structure has created an atmosphere whereby railcar maintenance due to track conditions has really been minimized.

On the contrary, there are a significant amount of industry lines and industry tracks that have problems with their roadbed, ties, gauge, alignment, elevation, frogs and switches that create a condition whereby railcar tracks dictate an unjustified need for railcar maintenance. Truck hunting and flange wear occurs when track conditions are such that the wheel flange wanders back and forth so that the flange makes excessive contact with the rail causing accelerated flange wear. This is also very evident when cars go around a sharp or irregular curve. I'm sure all of us have heard the squeal of the flanges making contact with the rail around these curves. Railcar wheel and truck repair is one of the most significant costs a railcar owner or lessee will endure so paying attention to the quality of rail you lay and concentrating on track repair and maintenance become not only a necessity but also a cost reducing tool. Besides flange wear, the railcar also experiences vibration resulting in a multitude of problems including truck wear and body cracks. Top on the list of any railcar owner or railcar lessee is the dreaded derailment. Derailments can happen to any track operator but are hardest to swallow when they could have been avoidable if only the track was better maintained. Low speed derailments in yards may not be as spectacular as mainline wrecks but they remain quite costly and are usually 100% avoidable.

Don't defer maintenance on your industry tracks. The railroads learned the lesson years ago and now it's time that industry needs to follow suit.

*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**.*

Railroad Traffic

The Association of American Railroads (AAR) reported July 11, 2011, that monthly carloads in June increased 0.9 percent compared with June 2010, for a total of 1,428,580 carloads. For the first six months of 2011, total carloads were up 2.7 percent over the first six months of 2010. According to AAR's monthly Rail Time Indicators report, intermodal traffic in June increased 4.6 percent, for a total of 1,152,432 trailers and containers compared with June 2010. Though positive, June's intermodal traffic growth marked the lowest monthly year-over-year increase for trailers and containers since January 2010.

In May 2011, the most recent month for employment figures, freight railroads added 745 employees, bringing the number to 157,522 employees at major freight railroads nationwide. May was the fourth straight month to see an employment increase, and the thirteenth monthly employment

For several months now, rail traffic, along with other economic indicators, has presented a mixed picture of the economy

increase in the past 17 months.

“For several months now, rail traffic, along with other economic indicators, has presented a mixed picture of the economy,” said AAR Senior Vice President John T. Gray. “While rail carloads have been relatively weak for the past quarter, largely due to coal traffic being down, rail intermodal remains relatively strong. Just like America waits to see what will happen with overall economic recovery, railroads are waiting to see what's in store for the second half of the year.”

Overall, 14 of 20 commodity categories saw carload gains on U.S. railroads in June 2011 compared with June 2010. Traffic gains were led by: metallic ores, up 19.2 percent; lumber and wood, up 12.9 percent, and grain, up 11.3 percent. Commodity groups with declines included: waste and non-ferrous scrap, down 13.6 percent; primary forest products, down 7.2 percent, and coal, down 3.2 percent.

Railroads continue to bring cars out of storage, as demand for rail continues to slowly rise. During the month of June, railroads brought 2,847 cars out, leaving 276,236 freight cars, or 18.2 percent of the North American fleet still in storage.

Learn more at: **http://www.aar.org/NewsAndEvents/Press-Releases/2011/07/11-RTI.aspx**

Industrial Inside

Railroads win as coal exports grow for U.S

The United States is poised to export the most coal in 2011 since 1992, filling a gap created when flooding interrupted Australian supplies, and buoying shipments for railroads such as Union Pacific and CSX.

Union Pacific, the country's largest railroad, might double coal exports this year to more than 4 million tons, said Doug Glass, the company's vice president and general manager for energy. CSX predicts shipments could rise 33 percent to a record in 2011 after first-quarter volumes climbed 45percent.

Foreign steelmakers, power plants hungry for American Fuel

"It's pretty exciting," Glass said in an interview. After the recession reduced demand for coal, which accounts for 21 percent of Union Pacific's sales, "we're starting to see renewed interest in that coal, and we're encouraged because we've got the capacity to meet the demand."

The Omaha, Neb.-based company has invested more than $90 million in expanding its Colorado and Utah coal business, and its peers are making track improvements and adding equipment to take advantage of growing demand. Norfolk Southern Corp., the fourth-biggest U.S. railroad, has said it will buy 1,500 coal cars this year.

Nationwide, coal exports might gain 20 percent in 2011 after quarterly volumes rose to the highest in about 19 years in the three months through March, according to government figures.

Railroads are starting to see

Coal shipments from the U.S. are poised to rise to about 98 million tons in 2011, the Energy Information Administration said. The exports increased

renewed interest in coal, and are encouraged because they've got the capacity to meet the demand

49 percent to 26.6 million tons in the first quarter alone.

Steelmakers in Asia and South America are driving demand for metallurgical coal, a crucial production ingredient, while shipments of thermal coal for power plants have been boosted by a drop in supplies from Australia's Queensland state and the idling of some atomic plants after Japan's nuclear crisis.

"It's 'you got to have it now' type of freight," said Jason Seidl, a New York-based analyst with Dahlman Rose & Co. "When the window is open for export coal, that's when you have to sell it, when you have to ship it."

China, the biggest consumer of metallurgical coal, will import about 49 million tons this year, up from 10 million in 2008, said Patricia Mohr, a vice president and economics and commodity- market specialist with Scotia Capital in Toronto. The country is consolidating its steel and coal industries by closing inefficient plants and mines, which is increasing demand for imported coal, she said.

Coal shipments from the U.S. are poised to rise to about 98 million tons in 2011

Australia's supply reduction, coupled with higher demand in Asia for the coal that Queensland is still producing, is "opening more opportunities for U.S. coals into the more traditional European and South American markets," said Mark Bower, group vice president for Norfolk Southern's export, metallurgical and industrial operations.

Metallurgical coal is found in bituminous deposits, mostly in the eastern U.S., along with thermal coal used for power generation. While metallurgical coal is the primary variety exported by the U.S., demand for thermal coal more than doubled in the first quarter, according to the Energy Information Administration.

Norfolk Southern is projecting growth in part because of efforts in Germany and Switzerland to move to coal power and away from atomic energy, said Satish Jindel, president of SJ Consulting Group Inc. in Sewickley, Pa. Scrutiny of nuclear power increased after an earthquake and tsunami in Japan this year caused the worst nuclear accident in 25 years.

Metallurgical coal is the primary variety exported by the U.S., demand for thermal coal more than doubled in the first quarter

As railroads such as CSX and Norfolk Southern carry Eastern coal for shipment overseas, Eastern utility companies demand more Western coal for their energy supply, Union Pacific Chief Financial Officer Robert Knight said on a conference call in June.

The Western U.S. has large deposits of softer, subbituminous coal, which require higher volumes to produce the same amount of energy as harder bituminous coal.

Union Pacific, which operates in the Western U.S., moves coal from that region to the upper Mississippi River for shipment to Europe, Glass said.

Although the company wants to increase shipments of Western coal bound for Asian markets that depends on development of Western ports and terminals Glass said. Export volumes this year could account for about 2 percent of the company's energy cargo.

"We intend to grow it, and we're working hard with our customers, with the mining industry, to make that happen," Glass said.

Like Union Pacific, Canadian Pacific Railway Ltd., the second-biggest Canadian rail company, is seeking to move thermal U.S. coal through Western ports to Asia, Chief Executive Officer Fred Green said.

Read the entire articles at:
http://www.dispatch.com/live/content/business/stories/2011/07/10/railroads-win-as-coal-exports-grow-for-u-s-.html?sid=

Financial Focus

Fed to keep interest rates low until 2013

The Federal Reserve painted a much gloomier picture of the economy Tuesday August 9th, 2011, and indicated it would keep cash cheap and easy for at least two more years.

Following its fifth policymaking meeting of the year, the central bank also surprised Wall Street with several dramatic changes to its official statement.

Among those surprises were dissension among the ranks of the central bank, a "considerably slower" reading on the economy, and a bold statement that the Fed stands ready to enact further stimulus measures if needed.

Fed stands ready to enact further stimulus measures if needed

Interest rates: The Fed indicated it plans to keep "exceptionally low" interest rates in place until at least mid-2013 as a way to continue to prop up the recovery.

The federal funds rate is the central bank's key tool to spur the economy and a low rate is thought to encourage spending by making it cheaper to borrow money.

The Fed has kept the rate near zero since 2008, but has long been ambiguous on its future timeframe, saying it would keep the federal funds rate near zero for an "extended period."

The new two-year time horizon was an unusual move because the Fed doesn't typically signal its policies that far in advance, and because it was interpreted as an admission that the economy will remain weak until then.

"It surprised me that they boxed themselves into a corner that way," said Professor Steve Wyatt from the Farmer School of Business at Miami University. "It essentially tells markets that they don't see any hope that we will see a stronger economic recovery in the next two years."

Disagreement within the Fed: Also surprising, was that three of the Fed's 10 voting members formally dissented against using the new language. Multiple dissenting votes are rare among the Fed's policy-making committee.

Regional Fed presidents Richard Fisher of Dallas, Narayana Kocherlakota of Minneapolis and Charles Plosser of Philadelphia said they would have preferred to keep the "extended period" phrase instead of laying out the 2013 timeframe.

"What it's telling us is this was a very divisive meeting and there was a lot of back and forth," said Sherry Cooper, chief economist with BMO Financial Group and a former Fed economist.

Aside from some other gloomier language about the U.S. recovery, the Federal Reserve did little else in response to heightened fears about a global economic slowdown.

Federal Reserve did little else in response to heightened fears about a global economic slowdown

"This was a very conservative statement," Cooper said. "Basically, they did the least they could do, short of doing absolutely nothing."

Gloomy outlook: The central bank acknowledged that economic growth in the United States is "considerably slower" than expected. That marks a change from prior statements, when the Fed had said the recovery was chugging along at a "moderate pace."

The central bank acknowledged that economic growth in the United States is "considerably slower" than expected

"Information received since the Federal Open Market Committee met in June 2011 indicates that economic growth so far this year has been considerably slower than the Committee had expected," the official Fed statement said.

The Fed also acknowledged that the job market has recently deteriorated, consumer spending has flattened out and the housing sector remains depressed.

The Fed acknowledged that the job market has recently deteriorated, consumer spending has flattened out and the housing sector remains depressed

More stimulus ahead? Critics have pointed out that there's little the Fed can do to tame volatile financial markets after Standard & Poor's downgraded the country's credit rating Friday. Having exhausted most of its traditional tools, the Fed also has few remaining options to try to prop up the sluggish economy and job market, many say.

But the Fed indicated it is considering a "range of policy tools available to promote a stronger economic recovery," and "is prepared to employ these tools as appropriate." This language was much stronger than in June, when the Fed seemed to take a more passive stance, saying it would "monitor the economic outlook" and "act as needed."

In June 2011, the Fed completed a $600 billion stimulus effort known as the second round of quantitative easing, or QE2. That policy is widely credited with supporting stocks earlier this year, but is also blamed for driving oil and gasoline prices higher -- an effect that spurred inflation and hurt U.S. consumer spending.

Some Fed members still fear that more monetary stimulus could drive inflation higher. But on the other hand, without stimulus, economists say

Some Fed members still fear that more monetary stimulus could drive inflation higher

the U.S. economy may risk falling into another recession.

At its prior meeting in June 2011, the Federal Reserve cut its forecasts for U.S. economic growth to between 2.7% and 2.9% for the year overall

Read the entire article at:
http://money.cnn.com/2011/08/09/news/economy/federal_reserve_meeting/index.htm?utm_source=feedburner&utm_medium=feed&utm_campaign=Feed%3A+rss%2Fmoney_latest+%28Latest+News%29

The Edge

The economy in general seems to be moving at a tic-mark pace. Consider most indicators for consumer confidence, purchasing manager index, manufacturing sales and inventories, industrial production and several other measures of goodness seem to be moving up or down at or less than half a percentage point month over month.

Contrary to the lack of consumer and manufacturing enthusiasm the rail industry seems to be gainfully employed in those areas in which there were some prior activities. For instance rail carloads of chemicals, forest products, metallic ores and metals, motor vehicles and parts, and nonmetallic minerals have all gained carload momentum. While some of the more unpinning commodities such as grain and coal have suffered volume increases that are more related to mother-nature and not actual attempts at movement by the railroads.

Such a resurgence is normally caused by one of two things, often times working together. One is a lack of service for some reason, for instance, scheduling, management or simply physical impediments such as flooding, drought and heat. The other is an honest increase in the volume of underlying business. Given the tic-mark pace of growth and severe hand mother-nature has dealt the rail industry this past year it's probably more of an uneven combination of the two.

Judging by the volume of customers we have looking for railcars the rail resurgence certainly is (temporarily?) underway.

If the growth is real, and our bucket list of customers is cautiously optimistic that it is, expect some restart pains by the industry. Hiring of crews, dragging additional cars out of storage, readying locomotives for service and scheduling a larger book of business will create some service interruptions. Plan accordingly.

We look forward to earning your business!