Touchbase

December 2016

In This Issue

- Tealinc Updates
- Railroad & Policy
- Mechanical Brief
- Railroad Traffic
- Industrial Inside
- Financial Focus
- The Edge

Visit us at:
www.tealinc.com

The UP will increase rates for empty private equipment 5% in January 2017

Control your biggest railcar maintenance expense

Tealinc Updates with Julie Mink

It's that time of year ago! I'm excited to see lots of familiar faces next month in Chicago when it will be my pleasure to represent Tealinc, Ltd. as an attendant of this year's MARS (Midwest Association of Rail Shippers) annual meeting. The event will be held January 11 – January 12, 2017 at the Hilton's Oak Brook Hills Resort, Oak Brook, IL. I look forward to meeting with you!

Contact Julie Mink Direct:
By Email: julie@tealinc.com
In the Office: (720) 733-9922
On Her Cell Phone: (720) 384-6385

Railroad & Policy Updates

On November 1, 2016, the Union Pacific Railroad ("UPRR") sent notice to its customers that…

Effective January 1, 2017, Union Pacific will adjust the mileage-based charges in UPRR 4703 (Items 1100 – 1200) for empty private equipment.

With the exception of empty tank cars moving to and from repair facilities, rates for empty private equipment will increase 5% (Item 1100). Rates for empty tank cars moving to and from repair facilities will increase 3.5% (Item 1200). Locomotive, MOW Cars, & RR FRT Cars not MOW (Items 2000 - 2090) will increase 5%.

View this Industrial Products announcement IP2016-14 on the Web

Mechanical Brief with Steve Christian

Tealinc had the recent pleasure of being involved in putting together recommendations for a unit train railcar repair facility, including tools and equipment needed to be safe, efficient and cost effective. While the project is confidential, the experience is something I hope many Tealinc newsletter readers can learn from. I believe that my background as someone who has started a contract shop from scratch and planned and executed shop expansions at several locations gives me a unique sense of what works… and what doesn't! Along with my own experiences at shops I've managed, I have also visited many Class I and contract shops all over the United States and Canada which includes a wide variety of shops.

Class I railroads generally have large budgets for well laid out roomy shops with all the tools and equipment that they might possibly need under any circumstances. Contract shop guys would drool at what they have to work with. Railroads view railcar maintenance as a cost center. They perform railcar repairs because the FRA and/or Transport Canada requires them to do it.

Contract shops are usually created out of old buildings that either have industry track running through or near them. Space is usually limited

You can have safety, efficiency and cost effectiveness by careful planning of your railcar maintenance needs and investing in facilities and equipment where it makes sense

and only essential tools and equipment are available. I worked for one company that refused to buy anything new. As the result, the maintenance guy was constantly repairing tools, equipment and welders. All of which hurts productivity and profitability. You can have safety, efficiency and cost effectiveness by careful planning of your railcar maintenance needs and investing in facilities and equipment where it makes sense.

Many unit train operators are in a unique position with respect to railcar maintenance including having their own railcar maintenance work performed on-site. With maintenance on-site, they can address as much of the work as makes sense for their particular circumstances. Or, they can do it all themselves. This can also take the form of an outside contractor performing the work on your site.

Whatever your circumstances, the first thing that I look at is the measurement, inspection and change-out of wheels. It goes without saying that generally speaking, wheels are the biggest single maintenance expense for any fleet. Depending on your particular circumstances it can amount to 50% or more of your total maintenance expenses; however, that in itself is not a reason to change wheels on-site. The goal should be to reduce the overall cost of wheels in your fleet. This can be done by controlling the makeup of your wheel population. With the proliferation of Wheel Impact Load Detectors ("WILD") and Acoustic Bearing Detectors ("ABD") being installed this expense will only grow over time.

From the many railroad billing repair cards that I audit monthly, it appears that the railroads favor selling the most expensive wheels

For many years, the AAR rules allowed railroads to charge private railcar owners and foreign lines for the difference in value between the wheel removed and the wheel applied. It was a somewhat complicated process that looked at many aspects of the wheel plates, axles and bearings to determine the value of the wheelset applied versus the wheelset removed. In recent years, the AAR simplified the method of billing for wheel changes.

The current method, in very simplified terms, allows the railroad to charge for the value of the wheelset applied. This sounds fair but in many cases the railroad will remove wheelsets with premium components from unit trains and replace them with wheelsets with new mount wheel plates, new axles and new bearings that would bill for well over $2,000. If that same wheelset had been removed and replaced with a wheelset composed of turned wheel plates, second hand axle and reconditioned bearings, the cost would be less than $700. From the many railroad billing repair cards that I audit monthly, it appears that the railroads favor selling the most expensive wheels. This also means that they retain the least expensive wheels for their own cars.

Now that we have established that unit train operators have the opportunity to accomplish many of their own repairs themselves on their property and that wheels are a recurring big ticket item, how can we take advantage of this without spending enormous sums on shop facilities?

Drop table versus portable hydraulic lift table

Well, I have personally been involved with two very efficient wheel change operations. The most efficient of all is a drop table. This is not the monster drop table that allows railroads to remove entire locomotive trucks or wheel and traction motor combos. They are highly efficient for this work but far too expensive and slow for railcar wheels. The drop table I am speaking of is specifically designed for replacement of individual wheelsets from railcars. It is so fast that a wheelset can be changed in less than 10 minutes. Drop tables operate in a fixed location so you need to move the cars to and from the drop table. There is another means for changing wheels that is not as efficient as a drop table but much more efficient than traditional wheel change methods. This means of wheel change is a portable hydraulic lift table that is transported from car to car in a coupled up string of cars. If you don't have sufficient track space to move cars to a fixed location, this is the best way to go.

There are a multitude of details that go into instituting either wheel change method and furthermore, designing (or improving) a railcar maintenance facility

There are a multitude of details that go into instituting either wheel change method and furthermore, designing (or improving) a railcar maintenance facility. There is nothing easy about it. However, I have been through both and have a great deal of experience in planning, installing and operating repair facilities. This is just one example of how Tealinc can employ our years of experience and varied talents in the railroad industry to work for you. Just put us to work!

Steve Christian is the Manager Value Creation-Railcar Performance Manager for Tealinc, Ltd. You may contact Steve directly in his Colorado office at (719) 358-9212 or via email at ***steve@tealinc.com****.*

Railroad Traffic

The Association of American Railroads (AAR) reported [November 2, 2016] weekly U.S. rail traffic, as well as volumes for October 2016.

U.S. carload traffic down 5.1 percent from October 2015; down 10% for the first 43 weeks of the year

Carload traffic in October totaled 1,066,994 carloads, down 5.1 percent or 57,800 carloads from October 2015. U.S. railroads also originated 1,075,820 containers and trailers in October 2016, down 1.2 percent or 13,096 units from the same month last year. For October 2016, combined U.S. carload and intermodal originations were 2,142,814, down 3.2 percent or 70,896 carloads and intermodal units from October 2015.

In October 2016, four of the 20 carload commodity categories tracked by the AAR each month saw carload gains compared with October 2015. These included: grain, up 6 percent or 6,014 carloads; waste and nonferrous scrap, up 9.9 percent or 1,349 carloads; and miscellaneous carloads, up 2.2 percent or 535 carloads.

Carloads of grain, waste and nonferrous scrap, and miscellaneous carloads up; carloads of coal, petroleum and petroleum products and chemicals down

Commodities that saw declines in October 2016 from October 2015 included: coal, down 7.6 percent or 29,621 carloads; petroleum and petroleum products, down 24 percent or 12,849 carloads; and chemicals, down 3.1 percent or 3,660 carloads.

Excluding coal, carloads were down 3.8 percent or 28,179 carloads in October 2016 from October 2015.

Total U.S. carload traffic for the first 43 weeks of 2016 was 10,804,210 carloads, down 10 percent or 1,200,705 carloads, while intermodal containers and trailers were 11,159,432 units, down 3 percent or 346,715 containers and trailers when compared to the same period in 2015.

"Railroads continue to face a difficult macroeconomic environment that's negatively impacting their traffic volume"

For the first ten months of 2016, total rail traffic volume in the United States was 21,963,642 carloads and intermodal units, down 6.6 percent or 1,547,420 carloads and intermodal units from the same point last year.

"Railroads continue to face a difficult macroeconomic environment that's negatively impacting their traffic volume," said AAR Senior Vice President of Policy and Economics John T. Gray. "Grain is doing well and autos are hanging on, but many other commodity categories that depend on a vibrant industrial sector — things like steel, petroleum products, and crushed stone — are not doing as well as railroads would like. Hopefully that changes in the months ahead."

Visit the AAR at: **https://www.aar.org/newsandevents/Press-Releases/Pages/2016-11-02-railtraffic.aspx**

Industrial Inside

Moody's boosts North American coal industry outlook

Despite persistent challenges, the outlook for the North American coal industry has been revised to stable from negative, Moody's Investors Service said in a new report. A combination of fourth quarter 2016 metallurgical coal benchmark prices settling at $200 per metric ton (mt) and natural gas prices hovering around $3/MMbtu has provided immediate relief for the strained sector.

The rating agency has also revised its price sensitivity assumptions for seaborne coal prices. In the medium-term range, met coal has been lifted to $90-$130/mt from $85-$90/mt, and Newcastle Thermal assumptions have been increased to $50-$65/mt from $53-$58/mt.

"Although we do not view the recent price uptick in met coal as ultimately sustainable, we also are not expecting prices to return to the low levels seen in late 2015 and early 2016, which were themselves a function of an oversupplied market and miners still working through production rationalizations"

"Although we do not view the recent price uptick in met coal as ultimately sustainable, we also are not expecting prices to return to the low levels seen in late 2015 and early 2016, which were themselves a function of an oversupplied market and miners still working through production rationalizations," said Anna Zubets-Anderson, Moody's vice president, senior analyst.

Even as U.S. metallurgical coal producers have significantly cut back production, they will continue to be disadvantaged by longer distance to the Asian markets, a strong U.S. dollar and higher position on the cost curve.

Additionally, Moody's analysts expect the U.S. thermal coal industry has seen the bottom due to rising natural gas prices and rationalization of production, even as the Energy Information Association's (EIA) anticipates a decline in coal consumption of 9% in 2016 due to Mercury and Air Toxics Standards (MATS) implementation, and only a modest recovery in 2017 due to growth in electric generation.

"For the thermal coal industry, the increase in natural gas prices has been supportive to a material price recovery across all U.S. coal basins in the last few weeks," Zubets-Anderson said.

November Bureau of Labor Statistics report data boosts case for a Federal Funds rate hike

"Based on everything we can possibly know right now, there's no chance that the Fed won't raise rates" at the December meeting... predicted "at least two more" interest rate increases next year

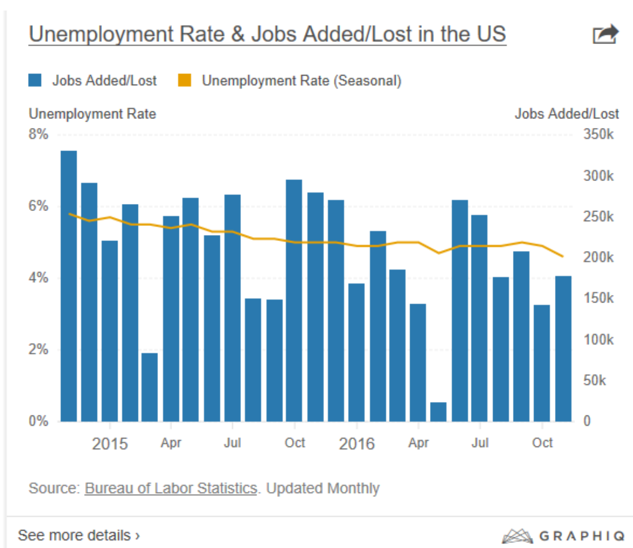
An additional boost to the struggling sector is the likely benefit from consolidation, as major U.S. coal producers emerge from Chapter 11 reorganization with debt levels Moody's believes will be maintained at a fraction of their pre-filing amounts.

Read the entire article at:
http://coalage.com/news/latest/5475-moody-s-boosts-north-american-coal-industry-outlook.html#.WC4pwY-cFaR

Financial Focus

The unemployment rate dropped to its lowest level in more than nine years, to 4.6 percent, according to monthly data released [December 2, 2016] by the Bureau of Labor Statistics. Coupled with a surge in oil prices since [November 30, 2016], the new jobless rate figure left analysts with little doubt that the Federal Reserve will raise interest rates in a couple of weeks.

At the Fed's last two meetings on Nov. 2 and Sept. 21, Federal Reserve Chair Janet Yellen cited a lack of change in major economic indicators, including the unemployment rate, as a reason the central bank backed off of a hike of its target for the federal funds rate—which influences other interest rates, such as those of mortgages and government bonds—to a range of between 0.5 and 0.75 percent from the current band of between 0.25 and 0.5 percent. But on [December 2, 2016], the new unemployment rate, America's lowest since August 2007, made the federal funds rate ripe for an increase, according to Mark Hamrick, a senior economic analyst at the consumer financial services firm Bankrate.



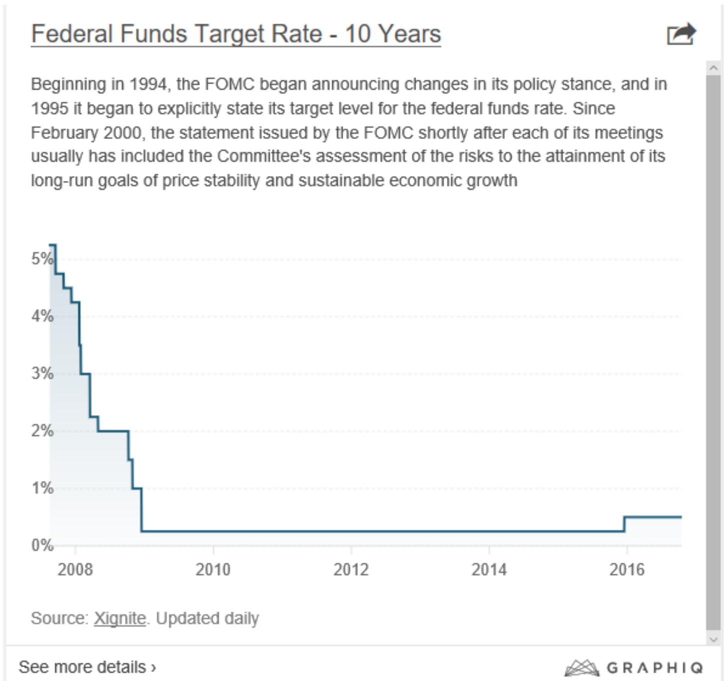
"Based on everything we can possibly know right now, there's no chance that the Fed won't raise rates" at the December meeting, Hamrick told International Business Times in a phone interview, barring "any Brexit- or Donald Trump-type event" that could potentially send market expectations off the rails. He also predicted "at least two more" interest rate increases next year.

Another factor boosting the likelihood of an interest rate hike was OPEC's consensus at a [November 30, 2016] meeting in Vienna to cut its supply by 1.2 million barrels per day, a move that sent the price of Brent crude, an international benchmark, up more than 14 percent by the end of the week, to more than $54 per barrel, a 16-month high.

Yellen pointed to energy prices, a key driver of inflation, as an additional reason to delay an interest rate increase in both November and December. While the OPEC decision sent oil prices up, the commodity still hasn't recovered from a substantial and stubborn price drop two years ago, from more than $110 per barrel to, at most, the low $50s.

Yellen pointed to energy prices, a key driver of inflation, as an additional reason to delay an interest rate increase in both November and December. While the OPEC decision sent oil prices up, the commodity still hasn't recovered from a substantial and stubborn price drop two years ago

Related Stories



Hamrick cautioned that the impact of the cartel's price gouging attempt may not fully manifest itself just yet, as OPEC's influence has weakened in the past couple of decades, and its effect on the American economy is mixed—potentially bringing consumers higher gas prices and general price levels, while giving large American oil companies some needed relief.

"We know that this is a very dynamic environment and that OPEC isn't as powerful as once was," he said, adding that higher prices at the pump "have yet to be seen."

"We know that this is a very dynamic environment and that OPEC isn't as powerful as once was," he said, adding that higher prices at the pump "have yet to be seen"

Just days before the release of the BLS jobs report, both Cleveland Fed President Loretta Mester and Fed Governor Jerome Powell separately made the case for a December adjustment to the federal funds rate. Powell said [November 29, 2016] that such a policy was needed to "support productivity and allow our dynamic economy to generate widespread gains in activity," while Mester said [November 30, 2016] that she supported a rate hike "not because I want to curtail the expansion, but because I believe it will help prolong the expansion."

Using federal funds rate futures prices, which express the market's views of the likelihood of a Fed interest rate change, as an indicator, the CME Group put the chances of a Dec. 14 rate hike at nearly 95 percent as of

[December 2, 2016] morning—a more than 2 percent rise in probability over the previous day. Hamrick pegged the probability at 99.9 percent.

Learn more at:
http://www.ibtimes.com/will-fed-raise-interest-rates-december-meeting-november-bls-report-data-boosts-case-2453935

The Edge with Darell Luther

Happy Holidays! It's that time of year again where we wrap up the year and attempt to prepare for the New Year. There seems to be renewed hope that the political agenda in our country has been replaced by a more business driven outlook.

Many industries are projecting a revitalized outlook for 2017 and beyond. Key areas that drive industrial growth look to be getting a helping hand. These industries range from aggregates, coal mining and usage, scrap and steel industries, lumber and poles, cement and related building products and a number of other core industrial business segments. Even the railroads themselves are looking forward to a more business friendly approach in key regulating or governing bodies. And look at the stock market rally a little over 19,000 as of this writing. The industry seems to be making a shift from a defensive approach to business to an offensive approach to business.

I find it interesting to read press releases and financial information about companies that are big players in an industry which typically provide insight on some future predictions. I recently read an investor press release from **Martin Marietta Materials, Inc.** One of the most interesting summaries was near the middle of the article stating that the company expected an increase in residential, nonresidential and industrial markets from the low to high single digits. However the company also projected a decrease in ChemRock/Rail market to experience a decline. Realizing high ballast sales in prior years appears to be moderating.

It's not all positive – yet! Currently key railcar loadings are setting new low records on a year over year basis with October being down 5.1%. That equates to a total of 266,749 carloads per week the lowest number since the Association of American Railroads began tracking railcar loadings in 1988. And it's not just coal. Railcar loadings other than coal for past five months have been off with the most recent weekly loadings being 3.8% off clicking in 176,358 railcar loadings for the week. The bulk commodities transportation industry and the intermodal transportation industry (down 1.2% to 5% in the past five months) can certainly use some business and industrial industry confidence to drive growth. A key metric to keep in mind though is that on a very consistent basis the rail industry lags downturns in the economy and leads recovery periods. Realistically we need to see the industrial upturn or recovery before there's any volume of product to haul. A very accurate depiction of the current rail industry state of affairs is reported in the **Berkshire Hathaway write up in their 10Q quarterly report** ending June 20, 2016 starting on page 32.

Whatever your outlook, plan to be successful. We have the privilege of working with several customers in the North American geographic area that all plan to succeed – it's only a matter of being consistent about processes, investments, infrastructure and being the same when times are more challenging.

Merry Christmas, happy holidays and best wishes for a prosperous 2017!

We look forward to earning your business!