Touchbase

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The AAR proposed changes to Rule 88 may extend railcar service life to 65 years

Railroad Updates

CSX Transportation has announced that it's now offering instantaneous interline prices via the Internet for traffic terminating on Norfolk Southern and Canadian Pacific railways.

Shippers can obtain an interline price online by logging onto **www.csx.com**. After entering an interline shipment's origin, destination and commodity, shippers receive a rate based on a combination of each railroad's established price for its portion of the move. Rates are valid for one year.

BNSF Implemented Charges Effective January 1, 2006

- **Switching**
  - Intra-plant switch charge - $150
  - Intra-terminal switch charge - $400
  - Hold for billing - $400 with $1,200 maximum per bill of lading
- **Diversions/Re-consignments**
  - Manually submitted (via fax or by other means) will be assessed $400 with $1,200 maximum per bill of lading.
  - Electronically submitted utilizing the BNSF web site will be assessed $200 with $600 maximum per bill of lading.
- **Bunching**
  BNSF will continue to allow bunching relief claims on unloading "Straight type" demurrage programs. *Straight plans* include refrigerated boxcar plans and *modified straight plans* are those covering center beams, boxcars, wood chip cars and gondolas. BNSF will no longer allow bunching relief claims on average-type demurrage plans, covering:
  · Non-credit and team track customers
  · Ag Commodities identified in BNSF 4022 and 4023 in private or railroad-controlled covered hoppers
  · Coal in open hoppers
  · Other commodities in open or covered hopper cars
- **Work Requested but not able to be Performed for Customer Reason**
  If BNSF receives a request for service and is unable to provide service due to a customer-related reason (for example--the ordering or release of cars and then not performing those actions--preventing BNSF from switching the cars), BNSF will assess a charge of $400 per car with maximum of $1,200 per occurrence.

For further information visit:
www.bnsf.com

AAR Updates

The AAR recently announced that the Equipment Engineering Committee (EEC) has been working on developing a set of criteria to

Railcars built on or after January 1, 1964 may be eligible to extend service life beyond 50 years.

October Food Products up 4.5 percent, Grain up 3.0 percent

Railroads provide more than 40 percent of U.S. intercity freight transportation, more than any other mode.

extend railcar service life. If the proposed Rule 88 changes are approved by the FRA, railcar service life will be extended from 50 years to 65 years.

To extend car body life, car owners will be required to approach the FRA for permission to operate beyond 50 years and applicable units will have to pass either of the following:

a) A fatigue test on sample cars or
b) Sample car inspections for initial approval purposes and then re-inspections every 5 years.

If implemented, units built on or after January 1, 1964 will be eligible to continue in interchange service beyond 50 years from the original date built, provided that proof of compliance meets standards set by the EEC. Once verification has been made, units that do not have structural defects or weaknesses may operate for an additional 40 years of life from the date that units are upgraded (up to a maximum of 65 years from the original date built.)

We'll continue to update you on the status of this extended life proposal. If approved, we will help direct you through the extended life process.

Railroad Traffic

The AAR reported that for the month of October, freight traffic was mixed on U.S. railroads with intermodal traffic up but carload freight off slightly.

Commodities seeing carload increases on U.S. railroads in October include food products (up 4.5 percent) and grain mill products (up 3.0 percent). Commodities seeing carload declines in October include chemicals (down 8.3 percent), nonmetallic minerals (down 18.4 percent), and coal (down 1.1 percent).

For the first 10 months of 2005, total U.S. rail carloads were up 1.0 percent while year-over-year increases in coal (up 1.7 percent), crushed stone, sand, and gravel (up 7.8 percent), and grain mill products (up 5.3 percent), among other categories, offset declines in motor vehicles and equipment (down 2.9 percent) and waste and scrap materials (down 5.7 percent), among others. For the year to date, 13 of the 19 major commodity categories tracked by the AAR saw carload gains for U.S. railroads.

"Residual effects of the hurricanes in Texas and the Gulf Coast, heavy rains in Kansas that washed out key tracks and damaged bridges, and other weather-related problems negatively affected rail traffic in October," said AAR Vice President Craig F. Rockey. "Railroads have worked hard to restore all parts of their network to full service so they can continue to meet the transportation needs of their customers as efficiently and cost-effectively as possible."

U.S. intermodal traffic, which consists of trailers and containers on flat cars and is not included in carload figures, was up 6.3 percent from the first ten months of 2004. U.S. rail intermodal traffic will almost certainly set another annual record in 2005, the fourth straight year this will have occurred.

Total volume for the first ten months of 2005 was estimated at 1.40 trillion ton-miles, up 2.6 percent from last year.

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

Industrial Inside

New orders in the metal industry surpass those in 2004

Dominating the US economy as a top industry, the steel and scrap metal markets stand to be noticed. Compared to the same time last year, new orders in September were up for metal working machinery manufacturing, +24.8%; construction machinery, +23.1%; computers and related, +19% and non-ferrous metals, +14.7%. Other notable series include construction supplies, +5.7% and machinery, +8.1%. Though these orders won't hit production lines for awhile, it should be noticed that the US consumption of metals looks positive for 2006.

Expect China's imports of steel, scrap metal to continue

Scrap prices have been on a consistent fluctuating stream since 2000 and while on a national level supply has generally matched demand, the ravenous Chinese market has taken a bite out of U.S. supply contributing to price and supply fluctuations. With their continuing economic growth, China became a net exporter of steel entering the market as prices drop and supplies rise.

China's secondary metals industry is becoming increasingly important to their economy. In the case of lead, all secondary metal was produced from domestically sourced scrap and the domestic scrap supply is slowly becoming the most important feedstock for China's metal recyclers. In 2004 China produced 14.3Mt of nonferrous metal of which 3.2Mt was produced from scrap metal where steel mills produced 20% from scrap. Domestic production of metal from scrap and imports of scrap are expected to keep rising.

In the U.S., prior to the destruction Katrina & Rita caused late this summer, steel mills were paying double for scrap metal and scrap surcharges and base price hikes mills were charging forced a lot of metal fabricators into bankruptcy. Post Katrina though, the supply of scrap steel has flooded the market pushing prices down while new orders for U.S. non-ferrous metals have recently spiked. Future pricing in the steel scrap market is expected to lay low for the first part of the new year though forecasters believe not all equipment and inventory available in hurricane affected areas can be immediately delivered which may cause prices to lay stagnant for a while.

As we look toward 2006, International steel consumption remains high. Time will only tell what is in store for the scrap metals market as international markets will continue to create fluctuations in the industry.

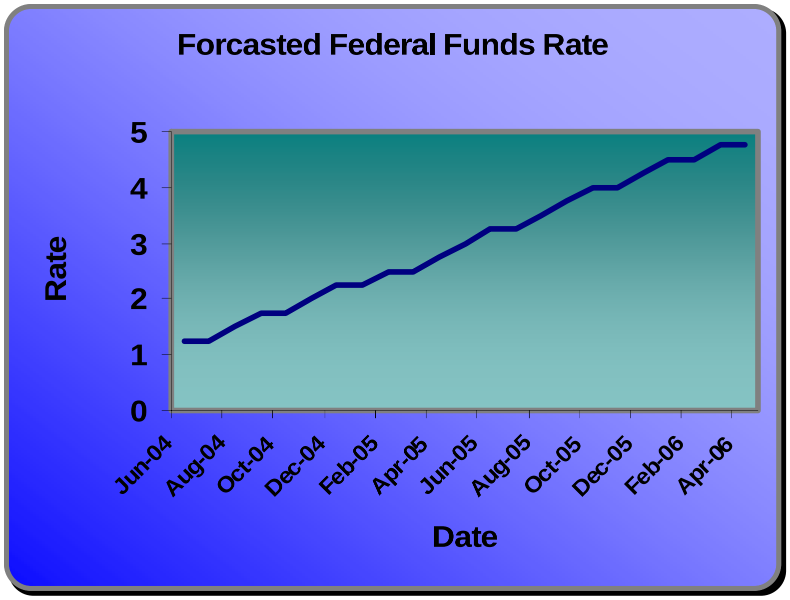
Federal funds rate forecasted to top 4.75 percent by April 2006

Count on Federal Funds increase to 4.25 percent in December

Financial Focus

U.S. economic growth and inflation should cool a little next year as interest rate hikes from the Federal Reserve as the housing market slows. 2006 is expected to get off to a strong start, helped by the reconstruction efforts of Hurricanes Katrina and Rita, but growth is likely to moderate in the second half of 2006.

The economic slowdown may also give the Federal Reserve reason to take a break from its relentless string of interest rate rises which have so far taken the benchmark federal funds rate to 4.0 percent from 1.0 percent in June of last year although some forecasts for rates by the beginning of April are 4.75 percent.



The Fed has been raising rates to keep a lid on inflation, worried that the recent surge in energy prices will begin to feed through to broader inflation if companies start raising prices for a variety of goods.

With the risks for inflation seen to be on the upside, the central bank is forecast to raise official rates again at its policy meetings in December and January.

Learn more at:
http://news.yahoo.com/s/nm/20051121/bs_nm/economy_poll_us_dc_1

The Edge

The times in which we operate sometimes give businesses the feeling they're sitting on the face of a Tsunami wave. For the most part, the world wide economy continues to boom causing an interesting balance between industrial and consumer goods supply and demand, albeit the cost of money continues to rise there appears to be somewhat of a resurgence of investors (private and institutional) that are looking for solid homes for their dollars. Closer to the industry, we're getting some consideration for extending the life on railcars that have (or will have after meeting rigorous requirements) significant utility values.

We continue to see the effects of the aforementioned Tsunami with our customers. They are attempting to find ways to move product faster, more efficiently, and ultimately with less overall costs. We find that the first step in the logistics chain is identifying all the costs associated with the movement of a commodity. Often times a company will only look at modal (truck, rail, barge, ship) comparisons and not take into account the overall costs from production to consumption of their product. If you're studying ways to simply make more from less we suggest you look at your overall cradle to grave process.

In the railcar and locomotive market we're seeing prices higher than the last 20 years for some car types. Recently a large group of trough hatch gravity gate covered hoppers that were built in 1980 traded for $28k each. The group only cost $32k when they were new 20 years ago. The person that did the residual value work on that set of cars was wrong but must be pleasantly surprised.

As we wrap up the year we want to extend warm and grateful thanks to our customers, friends, neighbors, coworkers and acquatences. We appreciate the time you spent with us working diligently on projects, offering advice and listening to ours. May you and your family have a healthy and joyous Holiday season.

We look forward to earning your business!