Tealinc

Touchbase

DECEMBER 2008

In This Issue

- Special Intro.
- Railroad Updates
- AAR Updates
- Railroad Traffic
- Industrial Inside
- Financial Focus
- The Edge

Visit us at:
www.tealinc.com

Tealinc welcomes Dawn Dice

Due to metals market, BNSF discontinues penalties associated with unused car orders.

Rails' faith in the future of global trade remains strong

Exports thrive when the dollar is weak and suffer when it's strong

Special Introduction

We are excited to introduce you to the newest member of the Tealinc team. Dawn Dice has joined our team as the Manager Value Creation and will be assisting Julie Mink in our Colorado office. Dawn will be an intricate part of our continued growth. Feel free to contact Dawn via email at **dawn@tealinc.com**.

Railroad Updates

Announced last month, the BNSF published an update on their website recognizing that there has been a significant change in the metals marketplace and wanted to reward customer commitment to the BNSF equipment guarantee program (LOGS). In response to [industry] changes, BNSF is making temporary adjustments to the LOGS Program. As of November 3, the BNSF will no longer be penalizing metals LOGS users for unused car orders. The BNSF announced that all penalties will discontinue until further notice.

The BNSF explains that permits will still be valid for shipping and qualifying customers will receive any applicable deducts due from LOGS permit. The BNSF requests that customers continue to use their permit number on shipments and for future car orders requests that customers order only what is needed to support business.

In the meantime, the BNSF will continue to monitor market conditions. The BNSF further details that future communication will be distributed stating the reinstatement date of the Metals LOGS penalty fees, with lead time for appropriate planning and executing business.

Learn more at:
http://domino.bnsf.com/website/updates.nsf/updates-marketing-industrial/3FBD6B127E04B666862574FA007BB579?Open

Rails' Faith in the Future of Global Trade Remains Strong

Take a fluctuating dollar, add a U.S. economy that already may be in a recession, throw in slowing economies worldwide and add a dash of one rapidly growing Asian country. Then hit the "blend" key. That's the global concoction North American Class I's find themselves drinking these days, and it has a sweet yet bitter taste.

Exports thrive when the dollar is weak and suffer when it's strong. The United States continues to import a lot of goods made overseas, but the pace has slowed as the economy grinds to a halt. Because so many more items are imported than exported no matter the economic environment, railroads international intermodal (i.e., container) business is down but a silver lining has been overseas demand for U.S. agricultural and other commodities, such as coal, which remains strong.

Rail execs aren't panicking. They won't be making any strategic shifts. They're still bullish on the long-term health of global trade. They plan to ride out the economic storm and do what they can to buffer their businesses from it — however bumpy the ride gets.

Rail execs aren't panicking; they won't be making any strategic shifts. They're still bullish on the long-term health of global trade [and] they plan to ride out the economic storm and do what they can to buffer their businesses from it

"There are a lot of things happening all at once with the credit markets, falling housing prices and rising fuel prices," says Steve Branscum, group vice president of consumer products for BNSF Railway Co. "All that together has really slowed down demand, and I don't think the experts have a good feel for when it's going to come back."

Slow & Slower

How sluggish is the demand these days? At BNSF, import-export business is down between 9 percent and 10 percent in the past few months — "a pretty significant drop," says Branscum. Exports are a bit stronger because of the value of the dollar, which has shown signs of strength in the past few months, and the movement of agricultural products in containers. On the other side of the equation, imports are down about 12 percent to 13 percent, he says.

Slower global growth (if not outright global recession) certainly will lead to reduced demand for some U.S.-made goods, and that, too, could affect export flows

Similarly, Norfolk Southern Railway's international container business is down year over year because imports are off from last year's pace, says Jeff Heller, assistant vice president of international marketing, noting that there is a direct connection between the U.S. economy and changes in the strength of the U.S. dollar.

Slower global growth (if not outright global recession) certainly will lead to reduced demand for some U.S.-made goods, and that, too, could affect export flows, says Fitch Ratings analyst Steve Brown. Pinched consumers cut back on retail purchases, and that has had a domino effect throughout the supply chain.

Railroads must continue making investments in infrastructure to take advantage of a turnaround, and therefore rising demand, when it does occur

"In the last several months, there appears to be a pretty steep decline in intermodal containers, particularly from the Pacific into West Coast ports, and that will have an effect on import trade flows in coming months," Brown says. At the Port of Los Angeles, it already has. Container counts as measured by 20-foot equivalent units (TEUs) were down 4.8 percent through September compared with volume from 2007's first nine months. In September alone, loaded imported containers decreased 9 percent.

Although incoming container volume has decreased, railroads still must continue making investments in infrastructure to take advantage of a turnaround, and therefore rising demand, when it does occur, Fitch's Brown says. When the United States emerged from its last recession earlier in the decade, railroads were unprepared for the increased demand, which led to congestion problems system wide.

When the United States emerged from its last recession earlier in the

"And in general, the long-term view is that we'll see growth in demand on railroads, even if there's a temporary reduction the next one to two years," Brown says.

decade, railroads were unprepared for the increased demand, which led to congestion problems system wide

Indeed, bullishness abounds when it comes to global trade and transportation, and the long-term health of the global economy, and there are good reasons for that sentiment. The aforementioned weak dollar makes U.S. goods cheaper abroad, leading to an increase in U.S. exports. For railroads, that's translated into robust international intermodal business.

The segment's gotten a boost from what seems like never-ending insatiable consumer demand for items made in China and other parts of Asia. And China's infrastructure and food demands are good news for agricultural products and commodities, such as grain and coal.

"Long term, we believe that the import growth will be back and continue on a strong trend," says John Kaiser, vice president and general manager of intermodal for Union Pacific Railroad. "The cost to produce products in lower-wage countries makes sense."

Read the entire article:
http://www.progressiverailroading.com/pr/article.asp?id=18555

AAR Updates

AAR Open Top Loading Rules Committee announces an updated lists of AAR approved securement manufacturers

On Friday November 14, 2008 by way of Circular C-10868, the Association of American Railroads (AAR) announced that the AAR Open Top Loading Rules Committee, responsible with the evaluation and approval of strapping material used for securement, packaging, and unitization of commodities loaded on open top cars, will be taking a different approach to announcing changes.

In order to make user notifications easier to announce, the committee has decided that the industry will be better served by having products listed on an accessible web site where they can be kept up to date.

AAR Circular Letter C-10551 was issued on July 6, 2007 covering the subject of updated lists of approved securement bands and strapping which was a partial list of product approvals in Section Nos. 1 and 7.

These changes are effective immediately and will be included in the next edition of the AAR OTLR Manual. In the interim, you may find these tables on the website of the AAR's Transportation Technology Center, Inc., subsidiary at www.aar.com.

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

Railroad Traffic

U.S. rail traffic down in October

Rail freight traffic on U.S. railroads was down during October in comparison with the same month last year, the Association of American Railroads (AAR) reported in November.

U.S. railroads originated 1,639,542 carloads of freight in the month, down 2.8 percent from October 2007. Railroads also originated

Commodities showing substantial carload gains in October 2008 were coal, metallic ores, and the catch-all "all other carloads"

Commodities showing the biggest carload decreases in October 2008 were motor vehicles and equipment, grain, and metals and metal products and chemicals

"Auto-related rail traffic remains weak because auto sales are weak; grain traffic is down in part because rail grain traffic last year at this time was at record highs and because of the stronger dollar recently. Coal was really the lone bright spot for U.S. freight railroads in October."

1,175,499 intermodal units in October 2008, a decrease of 2.9 percent from October 2007.

Four of the 19 major commodity categories tracked by the AAR saw U.S. carload increases in October 2008 compared to October 2007.

Commodities showing substantial carload gains in October 2008 were coal (up 6.1 percent), metallic ores (up 6.1 percent), and the catch-all "all other carloads" (up 23.5 percent).

Commodities showing the biggest carload decreases in October 2008 were motor vehicles and equipment (down 22.7 percent), grain (down 13.4 percent), and metals and metal products (down 16.0 percent). Carloads of chemicals were down 5.1 percent.

For the first 10 months of 2008, total U.S. rail carloads were down 0.5 percent. U.S. intermodal traffic, which consists of trailers and containers on flat cars and is not included in carload figures, was down 3.1 percent for the first 10 months of 2008 to 9,922,130 units. Total volume was estimated at 1.49 trillion ton-miles, up 0.5 percent from last year.

"With the kind of economic news we've had over the past few weeks, a decline in rail traffic in October shouldn't surprise anyone," said AAR Senior Vice President John T. Gray. "Auto-related rail traffic remains weak because auto sales are weak; grain traffic is down in part because rail grain traffic last year at this time was at record highs and because of the stronger dollar recently. Coal was really the lone bright spot for U.S. freight railroads in October."

Canadian rail carload traffic was down 7.6 percent in October 2008 to 371,819 carloads, and down 162,033 carloads (4.7 percent) for the year to date to 3,266,544 carloads.

Commodities showing carload gains for Canadian railroads in October included farm products excluding grain (up 35.7 percent) and coal (up 6.7 percent), among other commodities, but these were more than offset by declines in carloads of motor vehicles and equipment (down 33.6 percent), grain (down 14.3 percent), and chemicals (down 9.9 percent), among other commodities.

Carloads carried on Kansas City Southern dé Mexico, a major Mexican railroad, were down 11.1 percent in October 2008, while intermodal units carried totaled 30,438 units, up 14.4 percent. For the year-to-date, KCSM carloads carried were down 6.0 percent

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

Industrial Inside

2009 construction market will continue

Against a backdrop of a tough funding environment and construction projects being deferred, the level of construction starts in 2009 is

to slide, says latest outlook

"Tighter lending standards are a major constraint for the construction industry. For single family housing, declines are continuing and showing no sign of an upturn. Home prices are continuing to drop, a 20 percent drop so far this year, and we expect another 10 percent decline through the first half of 2009. Then, things should level off."

expected to decline 7.0 percent, to $515 billion, following a 12 percent decline predicted for 2008, according to McGraw-Hill Construction, part of The McGraw-Hill Companies.

"The speed and scope of the events in September and October were startling," said Robert A. Murray, vice president of economic affairs for McGraw-Hill Construction, addressing construction executives and professionals at the Outlook 2009 Executive Conference in Washington last week. "Tighter lending standards are a major constraint for the construction industry. For single family housing, declines are continuing and showing no sign of an upturn. Home prices are continuing to drop, a 20 percent drop so far this year, and we expect another 10 percent decline through the first half of 2009. Then, things should level off."

Highlights of the 2009 Construction Outlook include:

- Single-family housing for 2009 will be down 2.0 percent in dollars, corresponding to a 4.0 percent drop in the number of units to 560,000 (McGraw-Hill Construction basis).
- Multifamily housing will retreat 6.0 percent in dollars and 8.0 percent in units, after the sharp plunge witnessed during 2008.
- Commercial buildings will drop 12 percent in dollars and 15 percent in square feet, similar to the declines experienced in 2008. Stores and warehouses will continue to lose momentum, the office correction will be steeper, and hotel construction will finally pull back after its lengthy boom.
- Institutional buildings will slip 3.0 percent in dollars and 6.0 percent in square feet, as the financial crisis affects funding coming from states and localities.
- Manufacturing buildings will plunge 32 percent in dollars after an exceptional 2008 that was lifted by the start of several massive oil refinery expansion projects.
- Public works construction will fall 5.0, given flat funding at the federal level combined with restraint by state and local governments.
- Electric utility construction will retreat 30 percent after surging 55 percent to a near record amount in 2008.

Read more at:

www.cementamericas.com

Financial Focus

The Fed reduces its GDP projection, signals additional interest rate cuts and sees unemployment over 7% next year

The Federal Reserve on November 19, 2008 sharply lowered its projections for economic activity this year and next, and signaled that additional interest rate reductions may be needed to help combat the worst financial crisis to jolt the country in more than a half-century. With the economy forecast to lose traction, or even jolt into reverse, unemployment will move higher, the Fed predicted.
Facing the likelihood of "significant weakness" in the economy, some Fed officials suggested "additional policy easing could well be appropriate at future meetings," according to documents from the

Fed's most recent closed-door deliberations on interest rate policy at the end of October.

At that Oct. 29 session, the Fed ratcheted down rates to 1%, a level seen only once before in the last half-century. Many economists predict the Fed will lower rates again at its last meeting of the year on Dec. 16, to help brace the sinking economy.

Even while hinting that another rate reduction could be forthcoming, Fed officials worried that the effectiveness of previous rate cuts "may have been diminished by the financial dislocations, suggesting that further policy action might have limited efficacy in promoting a recovery in economic growth," the documents said.

To help ease financial turmoil and spur banks to lend money more freely again to customers, the Fed has taken a series of other unprecedented steps, including offering short-term cash loans and buying up mounds of short-term debt that companies rely on to pay day-to-day expenses like payrolls and supplies.

Under its new economic forecast, the Fed now believes gross domestic product (GDP - the value of all goods and services produced within the U.S. and is the best measure of the country's economic health) could be flat or grow by just 0.3% this year. GDP could actually shrink by 0.2% or expand by 1.1% next year. Both sets of projections are lower than the Fed's forecasts delivered to Congress in July.

The forecasts are based on what the Fed calls its "central tendencies," which exclude the three highest and three lowest forecasts made by Fed officials. The Fed also gives a range of all forecasts that showed some Fed officials projecting a 0.3% dip this year, followed by a deeper 1% contraction next year.

Inflation, meanwhile, is expected to be lower this year and next compared with the Fed's previous forecast. A global economic slowdown is sapping demand for energy, food and other commodities, driving down prices. That - along with a stronger U.S. dollar - has reduced inflation risks, the Fed said.
The Fed now expects inflation to be between 2.8% and 3.1% this year. And, inflation should moderate further to between 1.3% and 2% next year. Both forecasts are lower than the projections made in the summer.

In minutes of the October meeting, the Fed said "more aggressive easing" in interest rates "should reduce the odds of a deflationary outcome."

Deflation is a prolonged and widespread decline in prices, something the U.S. hasn't seriously suffered through since the 1930s. Once established, it is hard for Fed policymakers to break. That's partly because the Fed can lower its key rate only so far - to zero - to combat it.

Facing the likelihood of "significant weakness" in the economy, some Fed officials suggested "additional policy easing could well be appropriate at future meetings,"

Many economists predict the Fed will lower rates again at its last meeting of the year on Dec. 16, to help brace the sinking economy.

Inflation is expected to be lower this year and next compared with the Fed's previous forecast. A global economic slowdown is sapping demand for energy, food and other commodities, driving down prices.

The Edge

You'll note that we've added Dawn Dice to our team. Dawn comes to us from the retail management sector with a career concentration of arranging products and services that appeal to the customer. We look forward to her insights on continuing our customer service efforts here at Tealinc.

Julie Mink has earned her way up to Vice President Marketing and Administration. Julie has been a cornerstone to our company providing exemplary customer service.

We anticipate further additions to our staff in the near future. We find that human interaction from people that care creates opportunity in any type of business environment. We appreciate that opportunity from our many customers.

Last month I talked about the continued financial crisis and its impending impact on all modes of transportation. It appears that the trend will continue for the foreseeable future. We note around the world that more commodity shipments, with few exceptions, are moving to a domestic status and less to an export status. An example of this is the U.S. corn market.

Corn is an interesting commodity in that it crosses boundaries as a feedstock for human and animal foodstuff but also is a major ingredient in bio-fuels. The U.S. is the top corn exporter in the world accounting for 65% of all corn traded in the global market during 2007-2008 marketing year (USDA). The U.S. corn harvest is approximately 75% complete and USDA projections are that there will be 400 million bushels less exported this year than the previous year. The corn market is feeling the impact of a sudden economic slowdown following the path of energy and global freight rates.

Globally one can see the impact as well. Major food supplying countries are holding onto reserves (particularly Socialist ones where the ruling party can declare a moratorium on exports) for their own use or simply aren't selling because the credit crisis has extended its reach to major buyers now without funds to buy and transport commodities to their people.

On a smaller but nonetheless important scale, we see domestic U.S., Canadian and Mexican shippers and receivers holding off deliveries of goods until they are absolutely required. The ability of companies to turn commodities (goods and services) into an immediate cash flow is critical for their survival.

We continue to work with a number of companies that are progressively planning for the day we get to a financial state beyond the credit crisis so commerce can continue to flow. In the mean time, we are assisting in ways to reduce costs, increase operational efficiencies and put capital to work in high return lower risk situations.

We look forward to earning your business!