Touchbase

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In This Issue

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

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It is expected that by the end of 2007, BNSF will no longer have any woodchip gondolas for use in woodchip service

Fuel prices are heading down; fuel surcharge to follow

Railroad Updates

The BNSF is in the process of divesting its fleet of woodchip gondolas used in woodchip service. As the fleet ages and cars are being retired, BNSF has determined that the economic returns do not justify reinvesting in this equipment type (i.e. extending the life of existing equipment or replacing aging equipment with new).

The cars are being sold to various parties in the industry--including shippers and leasing companies--and it is expected that by the end of 2007, BNSF will no longer have any woodchip gondolas for use in woodchip service. Shippers who currently use BNSF woodchip gondolas are advised to begin making plans for replacing this transportation capacity once the fleet is exhausted.

Furthermore, for the movement of woodchips and bark in woodchip gondolas originating on the BNSF network, BNSF provides chip nets **only** for BNSF-owned equipment. It is the responsibility of the shipper and/or other railroads to provide chip nets for private (X-marked) equipment or equipment owned by other railroads. Once the BNSF fleet of woodchip gondolas has been fully divested, BNSF will no longer provide any nets for the shipment of woodchips.

Read the entire article:
http://newdomino.bnsf.com/website/updates.nsf/updates-marketing-industrial/45E65CFE009F934686257273006B37C0?Open

CSX and UP Fuel Surcharge To Drop

Fuel prices are heading down, and so is CSX Intermodal's monthly fuel surcharge. On February 5, the company will implement a surcharge of 15.5 percent down from 17.5 percent in December and January and down from 16.5 percent in November.

February's 17.5 percent surcharge applies to CSXI's ramp-to-ramp, ramp-to-door, door-to-ramp and door-to-door rates. The drayage-only fuel surcharge for February will be 20 percent.

Meanwhile, Union Pacific Railroad's carload fuel surcharge will rise to 14 percent in February. The Class I's surcharge had held steady at 13 percent in December and January. However, the carload fuel surcharge will drop to 12.5 percent in March.

For every five cent increase above a DOE price index of $1.35, UP raises the carload fuel surcharge by 0.5 percent. During the past year, the railroad's surcharge reached a low of 12 percent in February 2006 and high of 18 percent in October 2006.

Content adapted from:
http://www.progressiverailroading.com/prdailynews/news.asp?id=10147

AAR Updates

New wheel set pricing effective February 1, 2007

On January 26, 2006 the AAR reported that the Car Repair Billing Committee developed a formalized procedure to ensure that significant average wheel set price fluctuations are reflected in the AAR Price Master in a more timely fashion. Essentially, the wheel set job codes are surveyed on a monthly rather than the former quarterly basis.

Due to new railroad contract wheel set pricing effective February 1, 2007, the AAAR has issued a new Price Master with criterion determined by the Car Repair Billing and Arbitration and Rules Committees. Please note that the new pricing affects Wheel Set Job Codes 3328, 3333, 3336, 3338, 3340, 3341, 3344 and 3346. Note that there is no change in Job Code 3343 for new 36 inch 2-wear or any of the turned job codes.

The new Price Master becomes effective February 1, 2007 and can be obtained through the AAR.

NARMO Seminar to be held March 20-22

North American Rail Mechanical Operations Seminar to be held on March 20-22, 2007

The 28th AAR North American Rail Mechanical Operations (NARMO) Seminar (formerly known as the Car Repair Billing Seminar) will be held March 20-22, 2007, in St. Louis, MO. Seminar registration and exhibits will begin on March 20th from 3:00pm to 7:00pm. The Opening Session of the Seminar will commence on Wednesday, March 21st, at 8:00am and workshops will be conducted from 9:00am to 5:00pm. Additional Seminar workshops will be held on Thursday, March 22nd, from 8:30am to Noon.

You may register online for the NARMO Seminar by logging into the AAR's website at **www.aar.org** and double click on the "**Events**" tab on the left and click on NARMO for more information.

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

Railroad Traffic

U.S. freight railroads complete another record-breaking year

U.S. freight railroads completed a record-breaking year by originating 1,267,054 carloads of freight in December 2006 and an additional 889,172 intermodal trailers and containers, the Association of American Railroads (AAR) reported in January.

Full-year 2006 U.S. carloads totaled 17,380,102, up 1.2 percent (213,751 carloads) over 2005. Full-year 2006 U.S. intermodal loadings were 12,282,221 units, up 5.0 percent (588,709 trailers and containers) over 2005's 11,693,512 units, which had been the previous highest annual total ever.

Also setting a record in 2006 was total freight volume, which was estimated at 1.74 trillion ton-miles, up 2.5 percent from the previous record which was set in 2005. “U.S. freight railroads, working with their Canadian and Mexican counterparts, handled significantly more traffic in 2006 than ever before. North American freight railroads are the most efficient and cost-effective freight railroads in the world,” noted AAR Vice President Craig F. Rockey. “Because of record high traffic levels, capacity expansion will be a key issue in 2007. Railroads will spend massive amounts of private capital to add capacity where it is needed, and policymakers can support this investment with appropriate legislative incentives and regulatory policies that recognize that railroads are a vital component of our economy.”

Total freight volume was up 2.5 percent in 2006

December 2006 carloads on U.S. railroads were up 2.4 percent (29,608 carloads) over December 2005, while intermodal loadings were up 1.8 percent (15,871 units) for the month. For the fourth quarter of 2006, U.S. rail carloadings were up 0.9 percent (37,768 carloads) to 4,243,899 carloads, while intermodal traffic was up 1.4 percent (42,770 units) to 3,078,746 trailers and containers.

Coal carloads rose 4.7 percent in 2006

Coal paced U.S. rail traffic in 2006. Carloads of coal rose 6.8 percent (35,257 carloads) in December 2006 to 552,568 carloads; rose 5.9 percent (101,153 carloads) in the fourth quarter to 1,822,877 carloads; and rose 4.7 percent (324,476 carloads) to 7,282,608 carloads for 2006 as a whole. In 2006, coal accounted for 42 percent of total non-intermodal U.S. rail carloadings.

Carloads of chemicals rose 0.6 percent (619 carloads) in December, rose 0.8 percent (3,018 carloads) in the fourth quarter, and fell 1.1 percent (16,566 carloads) for the full year. In 2006, total chemical carloads of 1,519,261 accounted for 9 percent of total non-intermodal U.S. rail carloadings, second only to coal.

Grain carloads rose 4.3 percent and were the third highest of any commodity category for the year

Grain saw carloads rise 10.5 percent (8,689 carloads) in December, 6.5 percent (18,265 carloads) in the fourth quarter, and 4.3 percent (48,537 carloads) for all of 2006. Total grain carloads of 1,178,547 in 2006 were the third highest of any commodity category, behind coal and chemicals and just ahead of crushed stone, sand, and gravel (1,175,955 carloads).

All told, of the 19 major commodity categories tracked by the AAR, eight saw U.S. carload gains in December, eight saw gains in the fourth quarter, and nine saw gains over 2005 for the full year.

The difficulties in the housing and automotive sectors led to reduced rail carloadings in several categories, especially in the second half of the year

“The difficulties in the housing and automotive sectors led to reduced rail carloadings in several categories, especially in the second half of the year,” Rockey said. Carloads of lumber and wood products were down 9.1 percent (28,188 carloads) in 2006, while carloads of motor vehicles and equipment were down 6.0 percent (69,815 carloads).

Canadian rail carload traffic, which includes the U.S. operations of Canadian railroads, was down 4.2 percent (11,807 carloads) in December 2006 to 268,234 units. For the fourth quarter of 2006, Canadian carloads were also down 4.2 percent (40,875 carloads) to

934,528.

Combined cumulative rail volume for 2006 on 15 reporting U.S. and Canadian railroads totaled 21,224,558 carloads, up 0.7 percent (140,278 carloads) from 2005, and 14,639,199 trailers and containers, up 5.0 percent (702,920 units) from 2005.

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

Industrial Inside

Value of nation's mineral production increased in 2006

In January the USGS published a “Minerals Commodity Summaries 2007” reporting on data collected in 2006. According to the report, the rapid growth of the Chinese and Indian economies drove the demand for metals and minerals up during 2006 and resulted in high prices for many mineral commodities.

During 2006, industrial sand and gravel valued at about $767 million was produced by 73 companies from 151 operations in 34 States. About 35% of the U.S. tonnage was used as glassmaking sand, 18% as foundry sand, 14% as well-packing and cementing sand, 8% as building products, 3% as abrasive sand, and 22% for other uses.

It is estimated that about 49% of the 1.28 billion tons of construction sand and gravel produced in 2006 was for unspecified uses

It is estimated that about 49% of the 1.28 billion tons of construction sand and gravel produced in 2006 was for unspecified uses. Of the remaining total, about 45% was used as concrete aggregates; 22% for road base and coverings and road stabilization; 14% as construction fill; 12% as asphaltic concrete aggregates and other bituminous mixtures; 2% for plaster and gunite sands; 1% for concrete products, such as blocks, bricks, and pipes; and the remaining 4% for filtration, railroad ballast, roofing granules, snow and ice control, and other miscellaneous uses.

Domestic sales of industrial sand and gravel in 2006 increased by about 4% compared with those of 2005, owing to a robust construction sector of the U.S. economy and worldwide demand

Domestic sales of industrial sand and gravel in 2006 increased by about 4% compared with those of 2005, owing to a robust construction sector of the U.S. economy and worldwide demand. U.S. apparent consumption was 29.7 million tons in 2006, a 4% increase from that of the previous year. Imports of industrial sand and gravel in 2006 increased by about 11% compared with those of 2005. Mexico’s and Canada’s share of imports both increased. Exports of industrial sand and gravel in 2006 increased by about 3% compared with those of 2005. Strong overseas demand coupled with continued growth in the U.S. home construction sector is expected to help maintain a robust industrial sand and gravel industry.

The report suggests that substantial growth in nonresidential construction should help to offset decreases in home construction. Most areas of the country will likely experience increased sales and consumption of sand and gravel. Crushed stone, the other major construction aggregate, has been replacing natural sand and gravel, especially in more densely populated areas of the Eastern United States.

Regulations may result in shortages of construction sand and gravel in industrialized and urban areas also are expected to increase

While the construction sand and gravel industry continues to be concerned with environmental, health, and safety regulations, the movement of sand and gravel operations away from densely populated centers is expected to continue where environmental, land development, and local zoning regulations discourage them. Consequently, shortages of construction sand and gravel in industrialized and urban areas also are expected to increase. Construction sand and gravel valued at $7.9 billion was produced by an estimated 3,800 companies from about 6,000 operations in 50 States. Leading producing States, in order of decreasing tonnage, were California, Arizona, Texas, Michigan, Minnesota, Nevada, Ohio, Washington, Colorado, and Wisconsin, which together accounted for about 54% of the total output.

Sand and gravel resources of the world are large. However, because of environmental restrictions, geographic distribution, and quality requirements for some uses, sand and gravel extraction is uneconomic in some cases. The most important commercial sources of sand and gravel have been glacial deposits, river channels, and river flood plains. Use of offshore deposits in the United States is mostly restricted to beach erosion control and replenishment. Other countries routinely mine offshore deposits of aggregates for onshore construction projects.

Early estimates show domestic production will increase to 1.29 billion tons and U.S. consumption will increase to about 1.3 billion tons this in 2007

The study also acknowledged that construction sand and gravel output increased to approximately 1.28 billion tons in 2006, a slight increase compared with that of 2005. The USGS reported that early estimates show domestic production will increase to 1.29 billion tons and U.S. apparent consumption will increase to about 1.3 billion tons this year.

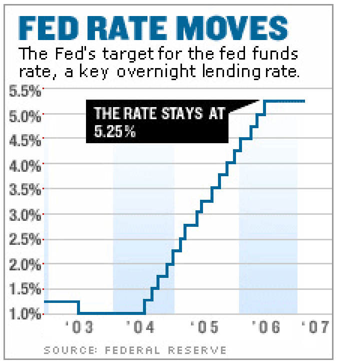
This content was adapted from:
http://minerals.usgs.gov/minerals/pubs/mcs/2007/mcs2007.pdf

Financial Focus

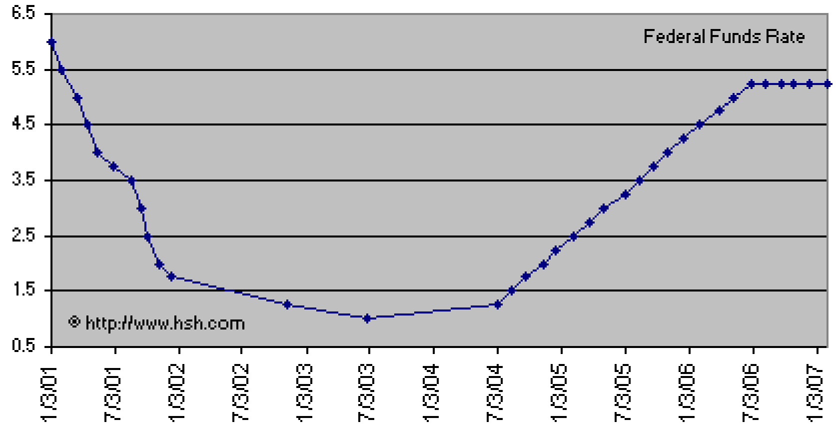
Federal funds rate sits steady at 5.25 percent

On January 30th, the Federal Reserve left its target for the federal funds rate, an overnight bank lending rate that affects rates on various types of loans, at 5.25 percent. It was the fifth straight time the Fed has held steady, a move that was made despite the housing slump.

The Fed raises rates when it wants to slow the economy and dampen inflation and cuts rates when it wants to spur growth.



Some expect that the federal funds rate may sit steady at 5.25 for the next few months



The vote for no change in interest rates was unanimous for the first time since the Fed first paused in August after raising rates seventeen straight times from June 2004 through June of last year.

Energy prices have fallen in recent months, leading some economists to think that inflation is no longer as big of a concern for Fed Chairman Ben Bernanke and other policy-makers. There also have been some signs the housing market is stabilizing, which could mean the economy won't slow as much in 2007 as some had initially feared.

In fact, the Fed's decision came just a few hours after the government reported that economic growth in the fourth quarter was higher than expected and that inflation pressures had eased.

"Recent indicators have suggested somewhat firmer economic growth, and some tentative signs of stabilization have appeared in the housing market," the Fed said, adding that the economy "seems likely to expand at a moderate pace over coming quarters." The Fed also said that "readings on core inflation have improved modestly in recent months," and that "inflation pressures seem likely to moderate over time.

There is a growing sense on Wall Street that the Fed may leave the fed funds rate at 5.25 percent for the next few months, and possibly through all of 2007 - a conviction that sparked a powerful rally on Wall Street.

"It seems like overall the Fed is becoming more confident in the ability of the economy to grow at a stable pace. But the Fed doesn't think we are out of the woods yet on inflation and is still hawkish," Drew Matus, an economist with Lehman Brothers remarked.

Learn more at:
http://money.cnn.com/2007/01/31/news/economy/fed_rates/index.htm?postversion=2007013114

It's a new year and the industry has the pedal to the medal!!

Corn made the press three times last month in the Wall Street Journal. That's news when one considers that corn has been the previously lowest priced volume feed ingredient available to human and livestock consumption. Corn is currently priced on the CBOT around the $4.00/bushel mark up from the $2.00/bushel range earlier in 2005 being primarily driven by ethanol demand and reduction in ending stocks.

For the rail transportation industry this means a potential shift to truck for shorter haul movements from the field to the plant. However the end-product, ethanol, will require longer transportation cycles to refineries. The railroads have done a great job of gearing up for the tank – train business, hauling unit trains of ethanol to various destinations. The tank – train business keeps cycle time down (fast) and utilization of railcars up. That's a win for everyone. On the flip side we can expect to see a slight rationalization in the covered hopper railcar market for corn transportation. We expect the volume of corn available to be shipped by rail will be less than historical figures.

On other fronts the STB recently issued a ruling on Class I Railroad fuel surcharge practices. It appears that there will need to be some rationalization by the Class I railroads as to why they charge what they do for fuel surcharges. It's interesting when one looks at the Rail Cost Adjustment Factor (RCAF) which measures the rate of inflation in railroad inputs such as labor and fuel you'll find that fuel only makes up 16% of the All Inclusive Index of Railroad Input Costs. Moreover from 4th quarter 2006 to 1st quarter 2007 fuel (as part of the RACF index) is forecast to decrease by 16%.

Go figure – a rate increase is a rate increase.

We look forward to earning your business!