Touchbase

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CP: overloaded or imbalanced shipments

CP has improved its ability to prevent incidents related to improper loading practices

Lessons after 48 years in the

Railroad & Policy Updates

In an email letter sent by Keith Creel, President and Chief Operating Officer of Canadian Pacific Railway on January 19, 2016, Creel discusses overloaded and imbalanced shipments. We share that letter with our customers below.

Safety is one of Canadian Pacific's core foundations, and we continuously strive for improving safety standards. A large part of our ability to be leaders in safety is a result of our partnership with our valued customers. To help us prevent railway-related accidents, it is imperative all the safety requirements and protocols are followed as provided in the Customer Safety Handbook available on our website:
http://www.cpr.ca/en/customer-resources/customer-safety

CP has improved its ability to prevent incidents related to improper loading practices by upgrading technology with the use of Wheel Impact Load Detectors (WILDs) to raise alarms when over/dimensional loads are in transit. Over/ dimensional loads are shipments greater than the maximum standard for size, weight, and/or height of center of gravity. Track structure is carefully designed to handle the standard forces of railcar weight and movement. There are four alarm types which can trigger as a result of the WILD measurements: truck overload, car overload, imbalance end-to-end, and imbalance side-to-side. If the shipment deviates from the Railway Association of Canada and the Association of American Railroads General Rules governing loading requirements for railcars, cars will be set off.

Your responsibility
Customers will be notified via email through CP's Network Service Center that an alarm has been triggered and if action is required. It is the responsibility of the customer to engage a contractor to address the handling of the over/imbalanced car. The contractor hired must be certified eRailSafe, registered in CP's ISN database, and abide by CP's access control program coordinated through CP operations.
CP Tariff 2, CP Tariff 3 and CP Tariff 8 will be applied as required for improper loading. For questions, please contact your account manager, and refer to cpr.ca for current information on tariffs:
http://www.cpr.ca/en/customer-resources/pricing-and-tariffs

CP appreciates your continuous support and cooperation as we work together to ensure safe, efficient, and on-time product shipment in the New Year.

Mechanical Brief with Steve Christian

I am nearing my 48th year in the railroad industry. It doesn't seem possible but it is true. I began as a laborer in 1968 in the "Car Department" for a Class I railroad. I won't bore you with all the details, but my experiences

railroad industry: when it comes to railcar design, being a trailblazer can be problematic

as a laborer, carman's helper, carman and working foreman during the late 60's to the middle 70's gave me a ground level view of some great changes in the industry.

After college, I moved from blue collar into management at a Class I. Years later, I left the Class I railroad to join a railcar contract shop company. As I progressed through the management ranks at both the railroad and then the contract shop company, I had the good fortune to witness industry change from those perspectives as well.

There have been some amazing railroad industry changes that I witnessed. Some of the major changes were:

- Railroad mergers (some good, some not so good, some bad)
- Deregulation of the railroads
- Railroad employment decline
- Railroad contractor employment rise
- Closing of railroad mechanical back shops
- Opening of contract (non-railroad) railcar shops
- Consolidation of railcar builders
- Consolidation of railroad suppliers
- The growth of quality assurance requirements in railroad mechanical

"Change is never easy and always comes at a steep price for someone

I have seen both the pain and gain for all of them. Change is never easy and always comes at a steep price for someone.

It seems to me that the trailblazer (the one who goes first) is very often the one who pays the highest price. I have witnessed many situations where this has been true. I will attempt to explain my thoughts about one situation, where being first (a trailblazer) is usually very problematic.

I would like to discuss new railcar designs or existing railcar modifications that I term "Non-Standard." By non-standard, I include railcars that have unique features that are not normally found on that type of car in that type of service. In some cases, the means of loading and/or unloading that is not currently common for that lading (commodity) makes the car non-standard. You should ask yourself these questions before you build new railcars or modify existing railcars to become non-standard no matter what sets the cars apart from the general railcar population for a certain commodity,:

You should ask yourself these questions before you build new railcars or modify existing railcars to become non-standard Sidebar

1. What is the premium (additional cost) you are paying for this car over a standard car?
2. What changes do you have to make to loading and unloading facilities to utilize these cars? What will that cost?
3. Are the non-standard features so different that another shipper (in your industry) would be unwilling to use them in their service? If so, what would the cost be to "standardize" them so they would be universally accepted?
4. Will the manufacturer stock all parts that are unique to these cars? If so what are the costs? If not, what are the lead times for the parts and what will the prices be?
5. Will these non-standard features require periodic maintenance? If so, who will do it and what will it cost?
6. Can you clearly quantify your savings by using these non-standard

I love innovation and new ideas; however, new designs or modifications should be real world tested in a true railroad environment for an extended period of time

Network with others in your industry to see what they are doing. Perhaps you could partner with them and share the cost and risk

U.S. weekly rail traffic drops 10.5 percent

Carloads of coal showed the largest decrease in the commodity groups, with a drop of

cars? Where will the savings come from?

7. When you consider everything, do the savings outweigh all the costs (including the modification back to standard) if you went ahead and built these cars?

It might sound like I am against new railcar designs, existing railcar modifications and change in general. That is not true. I love innovation and new ideas; however, new designs or modifications should be real world tested in a true railroad environment for an extended period of time before anyone commits to completely moving in that direction. The best engineers cannot model all of the conditions that a railcar must endure. I could make a long list of new railcar designs and railcar modifications that looked like they were "the greatest thing since sliced bread" that ended up requiring extensive railcar modifications during and well after the warranty period. In some cases, one modification only moved the failure from one area of the car to another which then required another modification.

Here are my recommendations:

1. Extensive due diligence up front can save you a lot of pain and cost later on.
2. Tap outside resources for that due diligence work.
3. Get the serving railroad or railroads in on the process early. If they have any questions or concerns it is much better to get them resolved up front.
4. Network with others in your industry to see what they are doing. Perhaps you could partner with them and share the cost and risk.

There a many more items that should be considered and studied. Tealinc has a wide variety of talents and experiences within our company to guide you through this process with the goal of providing you with the analysis and counsel you need to help you make informed decisions. As always, Tealinc stands ready to serve you.

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) has reported that U.S. rail traffic for the week ending January 23, 2016, totaled 490,324 carloads and intermodal units, a 10.5 percent decrease compared to the same week in 2015.

U.S. carloads, which totaled 237,190 for the week, were down by 19.5 percent compared to the same week last year. U.S. intermodal volume for the week totaled 253,134 units, a decrease of 0.1 percent compared to 2015.

One of the 10 carload commodity groups that are tracked by the AAR posted an increase for the week ending January 23, 2016, when compared with the same week in 2015. Miscellaneous carloads increased 15.3 percent to 9,018 carloads.

35.8%

Coal showed the largest decrease in the commodity groups, with a drop of 35.8 percent to 74,128 carloads. Petroleum and petroleum products declined by 19 percent to 12,409 carloads, and metallic ores and metals dropped 16.2 percent to 19,418 carloads.

For the first 3 weeks of 2016, U.S. rail volume down 7.6 percent when compared to last year

For the first 3 weeks of 2016, U.S. rail volume totaled 1,494,917 carloads and intermodal units, a decrease of 7.6 percent when compared to last year. Carloads, with a total of 719,081, were down by 16.6 percent, and intermodal, with a total of 775,836, was up by 2.7 percent.

On the 13 reporting U.S., Canadian and Mexican railroads, combined North American rail volume for the week ending January 23, 2016, was 647,156 carloads and intermodal units, down 9.6 percent.

For the first 3 weeks of 2015, North American rail volume was down 7 percent, with a total of 1,958,155 carloads and intermodal units.

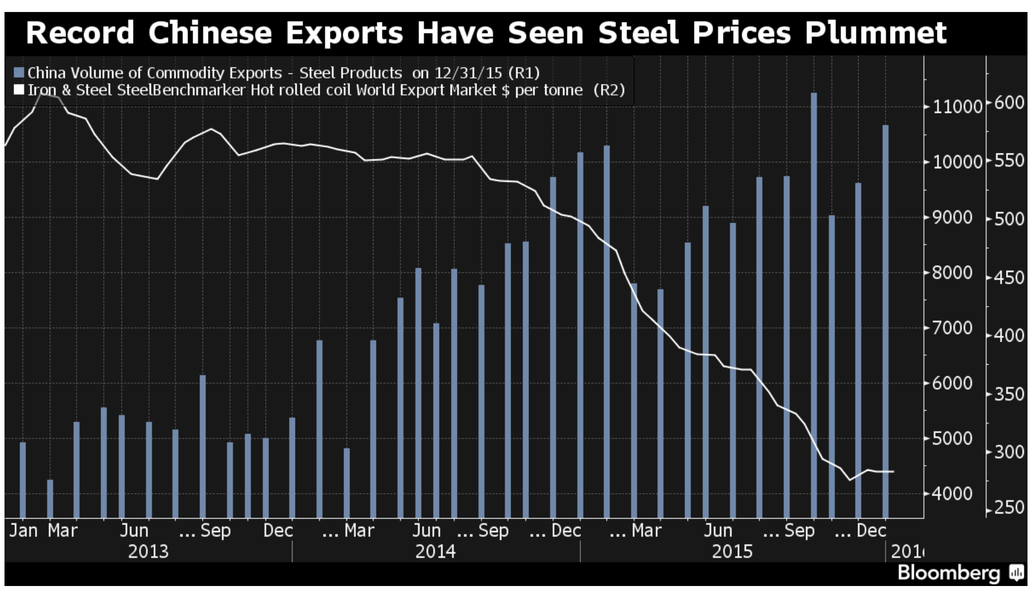
Read the entire article at:
http://www.railresource.com/content/?p=28839

Industrial Inside

China's new economy seen as steel output falls most in 6 years

For evidence of China's transition away from manufacturing and heavy industry, look at what is happening to steel.

Global production fell the most in six years in 2015 with China making up the biggest decline, according to data from the World Steel Association released January 25, 2016. Policy makers said over the weekend [of January 23 and 24] that they're planning deeper cuts and will help companies reduce their workforce and sell bad assets. Steel reinforcement bar futures have rebounded to a three-month high.



The global steel industry is shrinking after a boom in the previous decade when China emerged as the world's second-largest economy

"If steel prices are to make any lasting recovery, however, the oversupply on the world market urgently needs to be reduced," analysts at Commerzbank AG wrote in a report January 25, 2016.

Now, Chinese steel demand is dropping for the first time in a generation, prompting mills to export record amounts of the metal

The global steel industry is shrinking after a boom in the previous decade when China emerged as the world's second-largest economy and money poured into building cities, roads and bridges. Now, Chinese steel demand is dropping for the first time in a generation, prompting mills to export record amounts of the metal.

Global steel production fell 2.8 percent in 2015 to 1.62 billion metric tons, according to the industry report January 25, 2016.

The glut of metal has also forced producers in other countries to cut back. In the U.S., output slumped 11 percent to 78.9 million tons. In Europe, the drop was 3.2 percent. Other markets, including Japan, Turkey and South Korea also saw declines.

Read more at:
http://www.bloomberg.com/news/articles/2016-01-25/china-s-new-economy-seen-as-steel-output-falls-most-in-6-years

Financial Focus

A January pause, but fed affirms plan for gradual rate increases

The Federal Reserve entered 2016 with a fairly straightforward plan to gradually increase its benchmark interest rate so long as job growth remained strong.

On [January 27, 2016], it indicated that the plan remained intact. In a statement issued after a meeting of its policy-making committee, the Fed said that it was worried about weak global growth and wobbly financial markets, but it made clear that it still expected to raise interest rates "gradually."

The Fed did not raise its benchmark rate at this meeting, pausing as expected after increasing rates in December for the first time since the financial crisis. But the statement suggested officials were weighing a second increase as soon as its next meeting in March.

The Fed said that it was worried about weak global growth and wobbly financial markets, but it made clear that it still expected to raise interest rates "gradually"

"I still think they are going to raise rates in March," said Gus Faucher, a senior economist at PNC Bank. "I don't want to oversell it, but I think that while what goes on overseas has an impact on the U.S. economy, what's much more important is what goes on domestically."

The Fed decided to start raising rates in December after a seven-year stimulus campaign because officials judged the economy was gaining strength. Low interest rates encourage borrowing and risk-taking, contributing to faster growth. Officials said they expected to raise rates by about a percentage point in 2016 to gradually reduce those incentives.

Janet L. Yellen, the Fed's chairwoman, said after the December announcement that "the economic recovery has clearly come a long way, although it is not complete."

The new policy statement suggested that the Fed's confidence in the economic outlook had since deteriorated.

In December, it described the chances of faster and slower growth as "balanced." This time, the Fed reserved judgment. "The committee is closely monitoring global economic and financial developments and is assessing their implications for the labor market and inflation, and for the balance of risks to the outlook," the statement said.

The Fed noted that some economic measuring sticks were doing well, like continued job growth, more spending by businesses and consumers and the revival of the housing market.

The weakness and the risk that things will get worse have persuaded some analysts that the Fed is unlikely to raise rates again until the summer, or perhaps even later.

"Based on the state of the economy today, we believe the bar has become insurmountable for a follow-up rate hike in March," Ellen Zentner, chief United States economist at Morgan Stanley, wrote on Wednesday. Ms. Zentner noted that investors were betting against a March increase, based on the price of assets tied closely to short-term interest rates, and she said it was significant that the Fed had made little effort to alter those expectations.

"Based on the state of the economy today, we believe the bar has become insurmountable for a follow-up rate hike in March"

But Stanley Fischer, the Fed's vice chairman, cautioned this month that market expectations were overly pessimistic. William C. Dudley, the president of the Federal Reserve Bank of New York and, like Mr. Fischer, a close adviser to Ms. Yellen, also suggested in a mid-January speech that investors were leaping to conclusions.

"In terms of the economic outlook, the situation does not appear to have changed much since the last F.O.M.C. meeting," Mr. Dudley said in the speech, referring to the Federal Open Market Committee, the Fed's policy-making committee.

One question mark for the Fed is the impact of global weakness on the domestic economy.

Some officials see little evidence that slow growth in the rest of the developed world, and problems in China and other developing nations, will interfere significantly with domestic growth. The United States, after all, is by far the largest consumer of its own goods.

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Others, however, argue that the risks are being understated. The divergence between the United States and its major trading partners has increased the value of the dollar, reducing demand for exports like manufactured products and farm goods. Worries about global growth have unsettled equity markets, taking a bite out of household savings.

Michael Feroli, chief United States economist at JPMorgan Chase, said it made sense for the Fed to avoid coming to a conclusion in [the January 27, 2016] statement.

"The current uncertainty over the global outlook and what it means for the U.S. economy is not easily susceptible to measurement," he wrote, adding the Fed might go ahead with another rate increase in March, but was more

"The current uncertainty over the global outlook and what it means for the U.S. economy is not easily susceptible to measurement"

The Fed reiterated that it wanted to see "actual and expected progress" toward its 2 percent goal as it considers further interest rate increases

likely to wait until June. "We think this language buys them time."

The Fed also is wrestling with the persistent sluggishness of inflation, both a symptom of the broader weakness of the economy and an economic problem in its own right.

The Fed aims to keep prices rising at about 2 percent a year, but it has consistently fallen short since the recession that lasted from the end of 2007 to the middle of 2009. The Fed's preferred inflation gauge, which excludes food and energy prices because they are volatile, rose 1.3 percent during the 12 months through November, the most recent available data.

Public expectations about future inflation also are eroding, a problem because those expectations help to shape reality. People who expect prices to rise more quickly may press for higher wages, which can lead to higher prices as businesses compensate for payroll increases. That pressure may now be flowing in the opposite direction. A regular consumer survey conducted by the Federal Reserve Bank of New York found expectations of inflation in three years' time had declined to 2.8 percent from 3.3 percent over the last two years.

The Fed reiterated January 27, 2016 that it wanted to see "actual and expected progress" toward its 2 percent goal as it considers further interest rate increases. But the central bank also said it remained confident that inflation would begin to rise "as the transitory effects of declines in energy and import prices dissipate and the labor market strengthens further."

Wednesday's decision to hold rates steady, in a range of 0.25 to 0.5 percent, was made unanimously by the 10-member committee.

Learn more at:
http://www.nytimes.com/2016/01/28/business/economy/fed-interest-rates.html?_r=0

The Edge
…with Darell Luther

Happy Valentine's Day! Don't forget that significant other in your life. There's a lot of discussion around what will be the new normal in rail transportation. I liken it to the ever changing definition of "normal" around Valentine's Day. Early on it was the perfect vase of roses or jewelry of some sort, then sometime after during the hectic days of small children it may be Mom's day off from changing diapers and daily chores to children's teenage years of new and interesting music to hand written notes. Each stage depicting a new normal.

Are we looking at a new normal in rail transportation?

Year-to-date, 2015 U.S. Rail Traffic numbers are in from the Association of American Railroads (AAR). Rail traffic originations for U.S. railroads in 2015 were 14,266,204 carloads and in 2014 they were 15,191,345 carloads. That's a 925,141 carload (6.1%) decline year over year. That decline was led by the reduction in coal car loadings of 697,019 followed by metallic ores and metals (predominately iron ore, metal products and scrap) with a reduction of 175,345 car loadings wrapped up by 71,085 reduced car loadings of chemicals and petroleum (predominately crude oil) and nonmetallic minerals (stone, sand and gravel, phosphate, Sulphur, minerals, cement, etc.) with a minus 56,401 car loadings.

Railroads spent approximately $25 billion on infrastructure improvements and equipment in 2015. BNSF invested a record $6 billion in capital improvements with nearly $1.8 billion dedicated to double-tracking more than 120 miles of their network, placing nearly 900 new miles under Centralized Traffic Control, and added five new sidings and 16 extended sidings. CSX invested $2.5 billion thru a series of 29 separate projects all intended to speed up existing service, enhance interchange traffic between rail carriers at key points such as Chicago and St. Louis and increasing its' ability to quickly and smoothly move double stack intermodal trains. Norfolk Southern (NS) invested $2.4 billion of which $1.2 billion was directly attributable to track enhancement, replacement or new capacity to accommodate more fluid traffic flows. Union Pacific (UP) invested approximately $4.2 billion of which approximately $1.85 billion went directly to infrastructure and $650 million went to increase capacity for commercial facilities.

Much of this investment was driven by crude trains, automotive growth and intermodal growth. In the past, infrastructure requirements were primarily driven by coal and grain volume requirements. When one looks at an infrastructure map of any of the Class I railroads he or she finds that the U.S. rail infrastructure is really in great shape and requires only consistent repair and replacement and a little select fine tuning to handle most any kind of traffic mix.

So what will be the new normal for the rail industry?

Volumes of originated carloads are down significantly lead by heavy haul coal traffic and revenue rich crude trains. Infrastructure is in place to accommodate all classes of traffic and only requires operations commitments. Target truck competition is running into headwinds through driver shortages. Intermodal traffic is steady to growing taking advantage of the new(er) infrastructure improvements. It seems to me that railroads next big step is a real service commitment across an array of commodities (not just intermodal) creating value in service reliability and consistency. Run general service railcars faster from origin to destination, more reliably and more consistently. Will it cost more to ship by rail? Yes, but it will also allow the shipper to take costs out elsewhere (warehouses, storage, equipment, carrying and inventory, etc.) to (partially?) offset rail costs.

Whatever your new normal is, we stand ready to help you integrate into the rail world's new normal.

We look forward to earning your business!