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In This Issue

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

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The Canadian Pacific Railway and the Canadian Auto Workers Union reached a tentative three-year agreement averting a strike

Railroad Updates

The BNSF Railway will reportedly invest millions this year to expand capacity but just not as many millions as in 2007. The Class I has budgeted $2.45 billion for capital improvements in 2008, including $200 million for capacity expansion projects vs. $350 million last year. In 2007, BNSF's capital spending budget stood at $2.6 billion.

This year, the railroad plans to lease 200 locomotives at a cost of about $400 million, and spend $200 million to build track and facilities. Capacity expansion projects include the continuation of double- and triple-track construction along the southern Transcon line; a new second mainline across Abo Canyon in New Mexico; the installation of double track along coal routes in Nebraska and Wyoming; expansions to intermodal facilities in Kansas City, Mo., Los Angeles and Memphis, Tenn.; and new sidings between Houston and Fort Worth, Texas.

"For 2008, BNSF currently expects to spend more than $1.8 billion to keep our infrastructure strong by refreshing track, signal systems, structures and freight cars, and upgrading technologies," said Chairman, President and Chief Executive Officer Matt Rose in a prepared statement.

Read the entire article:
http://www.progressiverailroading.com/prdailynews/news.asp?id=14908

CPR, Auto Workers Union Reach Accord to Avert Strike

The Canadian Pacific Railway and the Canadian Auto Workers (CAW) union reached a tentative three-year agreement January 27th, averting a strike the CAW was set to launch January 29th.

The parties didn't disclose details of the pact, which will be presented to CAW members for a ratification vote. Local union leaders were reportedly ready to meet later that week ready to discuss the agreement.

CPR and the CAW — which represents 2,500 of the railroad's shopcraft workers — had been negotiating an agreement since October and remained far apart on concessions for months..

"This agreement effectively addresses the company's productivity and fluidity goals," said Assistant Vice President of Labor Relations Rick Wilson in a prepared statement.

Read the entire article:
http://www.progressiverailroading.com/prdailynews/news.asp?id=14883

AAR Updates

Nation's Freight Railroads and United Transportation Union Reach Tentative Agreement

On January 15, 2008, Edward R. Hamberger, President and CEO of the Association of American Railroads prepared this statement regarding the recent the tentative agreement that the Nations Freight Railroads and United Transportation Union reached. Below are Mr. Hamberger's comments regarding the recommendations of The National Surface Transportation Policy and Revenue Study Commission.

> The nation's freight railroads are pleased that this comprehensive, two-year study by the commission [that] very clearly sets out the need for a robust freight rail industry, and recognizes the opportunity for freight railroads to play a major role in alleviating traffic congestion, increasing highway safety, reducing pollution and saving energy.
>
> The report also recognizes the dramatic need for investment in our nation's transportation infrastructure. The report echoes concerns from business leaders around the country, who warn that the anticipated increase in freight traffic could overwhelm our nation's transportation infrastructure and threaten the competitiveness of our nation and the mobility of our citizens.
>
> Privately-owned railroad companies currently invest 18 percent of their revenue for infrastructure and equipment, ***more than any other industry*** and five times the average for all manufacturing. If freight railroads are to grow and continue to take freight off the highways, it is important that federal policies do not interfere with the present level of private investment, and in fact encourage even greater levels of infrastructure investment.

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Railroad Traffic

U.S. rail freight traffic second-highest in history in 2007

Although down from 2006's record-setting levels, freight traffic on U.S. railroads was the second highest on record, the Association of American Railroads (AAR) reported January 3, 2008.

Full-year 2007 U.S. carloads totaled 16,952,288, down 2.5 percent from 2006. Full-year 2007 U.S. intermodal loadings were 12,026,660 trailers and containers, down 2.1 percent from 2006. Total volume for the year was estimated at 1.76 trillion ton-miles, although down 1.0 percent from last year.

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"It's not surprising that U.S. rail traffic in 2007 was down from the record-setting level of 2006, given the well-documented problems the U.S. economy has been facing," noted AAR Vice President Craig F. Rockey. "Based on combined carloads and intermodal units, though, 2007 was actually the second highest-volume year in history for U.S.

freight railroads, behind only 2006."

For just the month of December, U.S. freight railroads originated 1,234,439 carloads of freight, down 2.6 percent from a year ago, and 867,386 intermodal trailers and containers, down 2.5 percent from December 2006. For the fourth quarter of 2007, U.S. rail carloadings were down 85 carloads, while intermodal traffic was down 2.5 percent to 3,002,027 trailers and containers.

U.S. railroads originated more carloads of coal in 2007 than any other single commodity

U.S. railroads originated more carloads of coal in 2007 than any other single commodity: the 7,213,955 coal carloads in 2007 were equal to 43 percent of total carloads and were down 0.9 percent from 2006. Carloads of coal fell 2.9 percent in December 2007 and were up 0.1 percent in the fourth quarter.

Carloads of chemicals rose 4.2 percent in December; rose 5.1 percent in the fourth quarter; and rose 3.3 percent for the full year. Ethanol is included in this category. In 2007, total chemical carloads accounted for 9 percent of total non-intermodal U.S. rail carloadings, second only to coal.

"The difficulties in the housing and automotive sectors in 2007 were clearly reflected in reduced rail carloadings in several commodity categories…"

Grain carloads rose 0.1 percent in December, rose 10.9 percent in the fourth quarter, and were flat for the year (up 110 carloads to 1,178,601 carloads) for all of 2007. Grain accounted for 7 percent of U.S. rail carloads in 2007, ahead of crushed stone, sand, and gravel and motor vehicles and equipment.

All told, of the 19 major commodity categories tracked by the AAR, seven saw U.S. carload gains in December, seven saw gains in the fourth quarter, and three saw gains over 2007 for the full year.

Carloads of lumber and wood products, motor vehicle and parts crushed stone, sand, and gravel, and metals and metal products — were down in 2007

"The difficulties in the housing and automotive sectors in 2007 were clearly reflected in reduced rail carloadings in several commodity categories," Rockey said. "For example, carloads of lumber and wood products on U.S. railroads were down 53,196 for the year, while carloads of motor vehicle and parts were 58,201 lower than in 2006. Carloads of crushed stone, sand, and gravel (much of which is construction-related) were down nearly 97,721, and carloads of metals and metal products — including things like steel for the auto and appliance industries — were down 56,781 carloads in 2007."

Canadian rail carload traffic, which includes the U.S. operations of Canadian railroads, was up 1.3 percent in December 2007. For the fourth quarter of 2007, Canadian carloads were up 5.0 percent. The increase in Canadian traffic in December and the fourth quarter is due mainly to much higher metallic ore traffic.

For all of 2007, Canadian railroads originated carloads were up 0.5 percent. In 2007, chemicals, metallic ores, grain, coal, and motor vehicles and equipment were the five highest-volume commodities carried in carload service by Canadian railroads.

Canadian intermodal traffic rose 2.6 percent in December 2007; rose

5.5 percent in the fourth quarter; and rose 3.5 percent for the full year to 2,435,955 trailers and containers.

Carloads carried on Kansas City Southern dé Mexico (formerly Transportación Ferroviaria Mexicana - TFM), a major Mexican railroad, were down 10.6 percent in December 2007 to, while intermodal units were up 11.4 percent. For the full year 2007, carloads carried on KCSM of 564,884 were down 4.6 percent, while intermodal traffic rose 14.5 percent to 243,205 trailers and containers.

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

Industrial Inside

Near record U.S. coal production forecasted for 2008

The National Mining Association reported on January 23, 2008 that it forecasts that coal production will return to near record levels this year, reaching 1.16 billion tons, 1.1% higher than the 1.147 billion tons mined in 2007.

The association estimated that demand for U.S. coal domestically and for export to Canada and overseas destinations will reach a record 1.209 billion tons, a 15-million ton (1.3%) increase over the record demand of 1.19 billion tons set in 2007.

While coal imports increased significantly during the past 10 years, they remained level at 36.5 million tons in 2007 and are not anticipated to change this year.

Because U.S. coal inventories are considered to be at adequate levels, however, the NMA forecasts that "there will be little demand in 2008 for coal for inventory build, putting coal supply (that includes production and imports) and demand in balance for the first time in several years."

While coal imports increased significantly during the past 10 years, they remained level at 36.5 million tons in 2007 and are not anticipated to change this year. Approximately 70% of the coal imported into this country is from Columbia, while Venezuela, Indonesia and Canada account for another 25%. These levels are expected to remain roughly the same in 2008.

The NMA predicted that production in the East, including Appalachia, Illinois, Indian and western Kentucky, will be 480 million tons, a slight decline from the 482 million tons produced last year. Production in the West, including the Powder River Basin, is anticipated to increase 2.1% to 680 million tons. The production increases will meet new demand for coal by utilities and for export, according to the association. "Production and transportation capacity to handle these levels of production are fully adequate."

Utility companies consumed 1.05 billion tons of coal in 2007 to produce 50.1% of the electricity sold through the U.S. grid, NMA said. Commercial and industrial consumers used another 27 million tons to generate power for their own use. The NMA said coal use for electricity generation was 2.9% higher in 2007 ‘due to higher overall demand for electricity in part by strong than expected economic activity and in part

by the warmer than normal fall."

Given more normal weather patterns and taking slower economic growth into account, electricity production is expected to increase is the 1.3 to 1.7 percent rage. If economic growth is lower than forecast, electricity demand should also decline.

Coal generation is the western electrical grid is nearing a peak, "and there is little potential for increase without new capacity," according to the NMA. Two new coal plants will come on line this year including a 203MW unit being built by Newmont Mining in Nevada.

The NMA found that demand for metallurgical coal at steel mills showed a small decline in 2007. "Although steel production is expected to decline again in 2008, demand for metallurgical coal should increase by one-half million tons and is forecast to be 23.5 million tons."

The association forecast that industrial coal use will increase 4.3% to 36.5 million tons.

"Exports, the story for 2007, will remain strong in 2008. Last year, despite a decline in shipments of both metallurgical and steam coal to Canada, exports increased by 17 percent," according to NMA. "Exports to overseas destinations totaled 40 million tons in 2007, 34.7 percent or 10.3 million tons, more than in 2006."

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"The U.S. coal export industry clearly benefited from increased demand, a weak dollar and production issues in other supplier countries," the NMA said. "Strong world demand for coal persists. China has rapidly moved from a net exporter of both steam and metallurgical coal to a net importer. Production and logistical problems continue in many supplier countries, and U.S. producers continue to benefit from a weak dollar. As a result, export of U.S. coal to overseas destinations is expected to increase again in 2008-although at a slower rate."

Global supply issues impact U.S. coal prices and supply

Dave Hannon, an author and contributor at "Purchasing," published an article on their website dated January 31, 2008 explaining that a rash of major coal supply issues around the world has made U.S. export coal more attractive—and more expensive.

Floods in Australia, the world's second largest coal exporter, temporarily shut down mines and forced several producers to declare force majeure, driving coal prices in that region—most headed to China--to record highs on limited supply. (On January 31st Rio Tinto announced that its two Queensland mines were back open, while BHP Billiton expects it coal joint venture with Mitsubishi Corp. will be reduced for as long as six months).

Concerning the Chinese market, advisors say "Given the tight supply, we believe incremental coal demand would mainly trade at spot prices. We expect large coal makers' spot sales to increase in 2008. We expect coal makers

Also affecting global markets was the news that China announced a two-month halt to coal exports, as it becomes more concerned with its domestic power needs. Turning off the Chinese supply for two months has impacted global prices. BNP Paribas's Lance He, said about the

to enjoy average selling price hikes in 2008."

Chinese market, "Given the tight supply, we believe incremental coal demand would mainly trade at spot prices. We expect large coal makers' spot sales to increase in 2008. We expect coal makers to enjoy average selling price hikes in 2008."

And to add insult to injury, coal fields in South Africa were experiencing power shortages, limiting their ability to produce their usual coal supply.

"Global coal demand and pricing continues to rise for all coal products... global coal prices are at high levels and rising, world coal inventories are low and decreasing, U.S. exports are accelerating, and new coal-fueled generation is being built at a fast pace. These market fundamentals lead to expectations that both metallurgical and thermal coal price settlements will be significantly above prior-year levels."

All of which caused JP Morgan recently to increase its 2008 global coal price forecast to $90/metric ton, a 61.7% increase from last year's price of $55.65 and a 28.5% increase from its earlier forecast of $70, according to Reuters.

And the supply impact is being felt in the U.S. both in terms of supply and price of coal. Spot U.S. coal prices have risen steadily according to data from U.S. Energy Information Administration. Last week, Central Appalachia coal rose nearly 3% from the previous week, to $59.90/ton. Northern Appalachia coal rose 2% to $63/ton, and Powder River Basin spot prices gained almost 4% at $12.30/ton.

But it's more than just the short-term impact that buyers are concerned with. Peabody Energy CEO Gregory Boyce said in the company's earnings statement that "Global coal demand and pricing continues to rise for all coal products, U.S. prices continue to strengthen, and the pull of Eastern U.S. coal into the export markets...Global coal prices are at high levels and rising, world coal inventories are low and decreasing, U.S. exports are accelerating, and new coal-fueled generation is being built at a fast pace. These market fundamentals lead to expectations that both metallurgical and thermal coal price settlements will be significantly above prior-year levels."

Coal miner Consol Energy said in its recent earnings statement that the increased demand for U.S. coal in global markets could drive U.S. miners to sign long-term contracts with overseas buyers. "With the strength of global coal demand expected to continue unabated this year, we could sign additional international contracts for steam coal this year with durations of seven to 10 years," the company said.

Read the entire articles at:
http://www.purchasing.com/index.asp?layout=articlePrint&articleID=CA6527639&article_prefix=CA&article_id=6527639
and
http://www.mineweb.com/mineweb/view/mineweb/en/page38?oid=44931&sn=Detail

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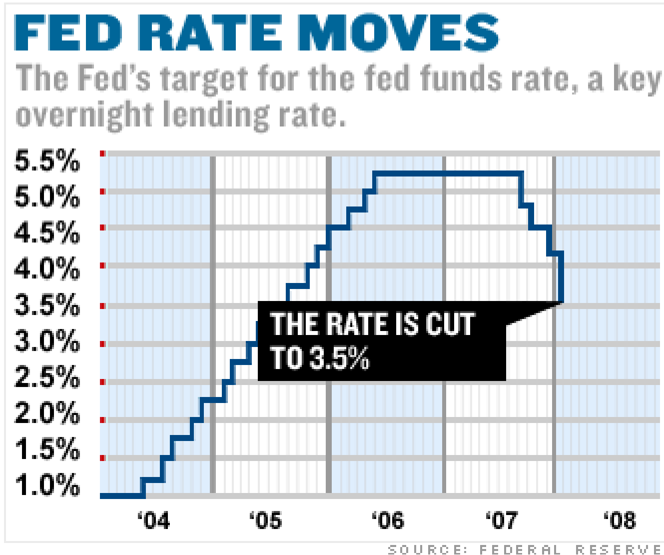
Facing fears of a recession, the Federal Reserve slashes Federal Funds rate to 3.5 percent

Financial Focus

Faced with growing risks of recession, the Federal Reserve made its second deep interest-rate cut in a week and slashed a key short-term rate by a half-percentage point January 30, 2008.

U.S. stocks, which had been slightly lower ahead of the

announcement, surged on news of the rate cut but ended lower after a volatile final two hours of trading.



The federal funds rate - an overnight bank lending rate that affects how much interest consumers pay on credit cards, home equity lines of credit and auto loans - was cut to 3.0% from 3.5%. The rate had stood at 5.25% only four months ago while the discount rate, which is what banks pay to borrow directly from the Fed, was also cut by a half-point to 3.5% on Wednesday. The cut was made at the request of nine of the nation's 12 Federal Reserve district bank presidents.

The federal funds rate - an overnight bank lending rate that affects how much interest consumers pay on credit cards, home equity lines of credit and auto loans - was cut to 3.0% from 3.5%.

The Fed slashed both rates by three-quarters of a percentage point in an emergency move on Jan. 22.

One member of the Federal Open Market Committee, Dallas Fed President Richard Fisher, voted against Wednesday's cut in the fed funds rate. He argued that rates should have been left unchanged after the series of rate cuts by the central bank in recent months. Fisher is generally seen as a so-called inflation hawk who is greatly concerned with maintaining price stability.

The Fed, in its statement explaining the cut, acknowledged that the risk of inflation needs to be monitored, but said that the majority of its members believed that price pressures will moderate in coming quarters. The Fed also said that rate cuts were necessary because problems in the credit markets were putting a squeeze on both consumers and businesses and that it sees growing weakness in both the job market and the battered housing market.

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"[The] policy action, combined with those taken earlier, should help to promote moderate growth over time and to mitigate the risks to economic activity," according to the statement. "However, downside risks to growth remain."

The Fed also appeared to hint that it will keep cutting rates if the economy shows more signs of decline saying, “the committee will continue to assess the effects of financial and other developments on

economic prospects and will act in a timely manner as needed to address those risks.

Keith Hembre, chief economist for First American Funds, said the statement suggested a greater likelihood of more cuts than he was expecting." I thought that they would probably include some language to temper expectations of any additional cuts in the near term," he said. "That statement makes it sounds like they're still in motion."

But one economist said that further rate cuts could be justified, and that it makes sense for the Fed to build on its emergency cut of a week ago, even if some see it as caving to market pressure. "They could have gotten away with a quarter, but that risked undoing every thing they did a week earlier. They are now ahead of the curve," said Mark Vitner, senior economist with Wachovia.

Vitner said he's not surprised that the fed funds futures indicate that investors expect more cuts. "You give them an inch, and they want a mile," he said. But he's also expecting a quarter point cut at each of the next two meetings. "Given where the Fed says the risks lie, you have to ask yourself, 'Are financials markets going be all that less stressed by March?'" he said. "I think the answer to that is, 'Probably not.'"

But economists who are concerned about inflation criticized the Fed move, and its apparent lack of attention to price pressures. "Higher prices are coming, even if the economy slows to a crawl," said Rich Yamarone, director of economic research at Argus Research. "We've seen price increases in company announcements, in our grocery bills and in the economic data. The Fed is telling you they're going to watch it because that's in their mandate. But I think they'll turn a blind eye to that."

The rate cuts came on a day the government reported that economic growth slowed significantly in the last three months of 2007, matching its weakest performance of the past five years. It also comes as Congress rushes to pass a $150 billion economic stimulus package to spur spending by both consumers and businesses.

Learn more at:
http://money.cnn.com/2008/01/30/news/economy/fed_rate_decision/index.htm?postversion=2008013016

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The Edge

Recession, Inflation, Presidential Election, Rail Rate Announces and Green!

In December 2007 we predicted this would be a tumultuous year in the rail industry. Last year at this time I was predicting $90 oil – I was only 11 months off. This time it looks like circumstances have allowed me to be right and timely!!!

The quagmire of information available seems quite confusing. It's even more troublesome when you have to commit to a rail (barge, truck, ocean) transportation system substantially in advance to have any chance of delivering (or receiving) your product in a timely manner.

In the month of January, the Federal Reserve cut interest rates twice in the span of nine days. They are very reactionary when faced with downward pressure (recessionary indications) maybe they'll react to the same with upward pressure (inflationary indications). Makes for interesting planning if you supply a product that's dependent upon somebody buying it!

November 4, 2008 and all the time leading up to it is full of rhetoric that we must all withstand if we're even remotely interested in the leadership of our country. However the time between now and then will be rot with promises that will be undeliverable for several years. Such promises will also make for interesting planning.

My informal survey of rail rate changes for a variety of products (excluding fuel surcharges) indicate that shippers can expect rate increases between 5% and 21.5% in the next sixty days. Maybe they'll last awhile (dear rate makers see comments on the Federal Reserve). As a rail rate payer you'll want to look at individual railroad websites for your commodities to plan ahead for these increases. What makes planning really difficult is that these changes can be put in place in less than thirty days. Try and do a five year strategic plan against using that timeline.

Overall though rail has one significant item going for it. It has a significantly "green" tint. Consider that you can haul more product ton-miles per gallon of fuel used than any other land transportation alternative, use a tremendous amount of recycled material on maintenance of way and infrastructure and it ("mostly") pays for itself in a capitalistic structure while accomplishing billions of ton-mile product movements every year.

While the outlook for 2008 may seem a little more like a twister ride our advice is to stay the course. If what you've done for many years works refine it to take the punches that will be dealt out this year but don't change course. If it wasn't working before it's certainly not going to work in this environment and you should look at an overhaul to survive. Long range well thought out and executed transportation plans with short(er) term execution strategies work regardless of the environment your participating in.

We look forward to earning your business!