Tealinc

Touchbase

January 2016

In This Issue

Visit us at:
www.tealinc.com

Tealinc is now accepting 2016 scholarship applications!

UP announces demurrage and storage policy changes effective April 1, 2016

Tealinc Now Accepting 2016 Scholarship Applications!

We are now accepting scholarship applications for the 2016 scholarship program. The program will award two – $1,000 scholarships to the best qualified candidates. The applicant must be in or be the child (or dependent) of a person working in an industry that raises, manufacturers or produces goods or provides services or is involved in transporting them. Examples of industries supported are farming/ranching, coal mining and transport, scrap steel recycling, steel production, fertilizer, minerals (iron ore, potash ash, soda ash, etc.), commodity and finished goods transportation (rail, truck, barge), grain, grain products, food manufacturing, lumber, building materials, aggregates, stone, sand and gravel, etc.

Candidates must be enrolled in or in the process of being enrolled in a two year technical school, two or four year college or a trade school by March 31, 2016 in order to receive the scholarship.

Candidates interested in applying for a scholarship should complete the **2016 Tealinc Scholarship Application** and return it to Tealinc, Ltd. no later than March 31, 2016.

Railroad & Policy Updates

On January 4, 2016, the Union Pacific Railroad ("UP") supplied the following letter in email format to its customers. The text of the email is included below and provides you with notice of the UP's demurrage and storage policy changes which are set to take effect April 1, 2016 under CN2016-1.

To Our Customers,

In an effort to improve network fluidity, bolster capacity and improve equipment utilization, Union Pacific Railroad will be modifying its General Demurrage and Private Empty Car Storage Rules & Charges Policy, effective April 1, 2016.

Union Pacific is focused on reducing excessive rail car dwell on our tracks and in our terminals. While volume is variable from year to year, rail cars holding in our yards is not. This new approach is designed to address this issue by differentiating hold charges between yard and industry tracks. Fluid rail yards support Union Pacific's mission to deliver safe and reliable service to all of our customers.

Under the new plan, debits will be issued based on the consumption of both railroad controlled equipment and yard capacity. Debits issued for cars on spot will not change from the current program. To this effect, railroad controlled cars held at industry will continue to be billed a debit of $100 per day, refrigerated cars at a debit of $200 per day, while private

...debits will be issued based on the consumption of both railroad controlled equipment and yard capacity

cars at industry will remain non-chargeable.

The changes apply to cars that are **held on Union Pacific yard tracks** and are as follows:

- Non-hazardous railroad controlled cars will increase by $100 per day, bringing the daily debit to $200 per day.
- Refrigerated cars will increase by $100 per day, bringing the daily debit to $300 per day.
- Private loads will continue to have debits accrue at $100 per day. Given their private ownership, these cars are only charged for consuming yard capacity.
- Private Empty Car Storage (PECS) rates will increase from $70 per day to $100 per day.
- Hazardous car debits will remain at $250 per day.
- Capacity credits will be issued at the new yard debit rate in consideration of service days or failed service events.

View this Customer News announcement CN2016-1 on the Web

Mechanical Brief with Steve Christian

Reflectorization update Part II: FRA grants waiver and extends renewal period by 3 years

In previous articles, I wrote about the U.S. Department of Transportation - Federal Railway Administration (FRA) enactment of rules to reduce highway-rail grade crossing accidents by the application of "retroreflective material" to the sides of all rail freight rolling stock. The initial application of reflectors on all equipment was required by November 28, 2015. Also, in my previous articles, I noted that Part 224.111 (Renewal) states that "regardless of condition, retroreflective sheeting required under this part must be replaced with new sheeting no later than ten years after the date of initial installation."

The Association of American Railroads ("AAR") sent a "Waiver Petition from 49 C.F.R. § 224.111: Renewal of Reflectorization Material on Rail Freight Rolling Stock" to the FRA on September 22, 2015. The AAR requested that the 10 year renewal period be extended by 3 years while work on a performance-based evaluation procedure is completed by Texas A & M University.

The AAR requested that the 10 year renewal period be extended by 3 years while work on a performance-based evaluation procedure is completed; FRA granted the waiver

The FRA totally surprised me by granting this waiver on November 25, 2015. The letter can be found at **www.regulations.gov** under Docket Number FRA-2015-0105.

FRA's Rail Safety Board grants the waiver subject to the following conditions as found in the subject letter:

1. The relief from 49 CFR § 224.111 must apply to railroad rolling stock owned or operated by AAR members listed in Appendix A to the petition for a period of 3 years, from November 28, 2015, to November 27, 2018.
2. During the waiver period, AAR members will replace retroreflective material grandfathered by 49 CFR § 224.107-- implementation schedule, at the earliest single car air brake test or annual

locomotive inspection regardless of the material's condition.

   a. AAR will be responsible for working with the railroad car owners to develop an implementation plan to ensure that 100 percent of the grandfathered cars and locomotives under § 224.107 be brought into compliance with the requirements outlined under Subpart B of Part 224 within the 3-year waiver period. FRA recommends that at least 33 percent of the grandfathered car fleet population be brought into compliance with Part 224, per year, during the 3-year period.
   b. Grandfathered cars and locomotives as described under § 224.107(a)(3) and § 224.107(b)(3), respectively, must be equipped with compliant material that conforms to the requirements outlined in Subpart B of Part 224.
      i. If 20 percent or more of the total sheeting area required per side by the grandfathered cars described in 2(b) above is found to be damaged, obscured, or missing prior to the earliest single car air brake test or annual locomotive inspection, then new compliant material sheeting must be installed on the entire car (both sides) conforming to the minimum requirements outlined in Table 2 to Subpart B of Part 224 within 9 months (270 calendar days).
   c. Grandfathered cars and locomotives that were equipped with compliant material conforming to the requirements outlined in Subpart B of Part 224, after the final rule on October 28, 2005, but before initial installation due date of November 28, 2005, need no further action taken.
      i. If 20 percent or more of minimum material area requirement per side required by the grandfathered cars described in 2(c) above is found to be damaged, obscured, or missing prior to the earliest single car air brake test or annual locomotive inspection, then the damaged, obscured, or missing sheets must be replaced with new complaint material sheeting within 9 months (270 calendar days).

3. During the waiver period, AAR members will inspect the retroreflective sheeting on rail cars at the single car air brake test required by 49 CFR § 232.305-Single car air brake tests, to ensure sheeting is not damaged, obscured, or missing.
4. During the waiver period, AAR members will inspect the retroreflective sheeting on locomotives at the annual inspection under 49 CFR § 229.27-Annual tests, to ensure sheeting is not damaged, obscured, or missing.
5. During the waiver period, if 20 percent or more of the minimum material area requirement per side is found to be damaged, obscured, (as with graffiti) or missing on either side, then the damaged, obscured, or missing sheeting must be replaced (and not repaired) with compliant material sheeting within 9 months (270 calendar days).
6. At least 6 months prior to the end of waiver period, AAR will provide FRA with a revised proposal for review that includes, but is not limited to, the following:
   a. Data on the retroreflective sheeting that are 10 or more years old (according to the UMLER installation date). The

AAR will be responsible for working with the railroad car owners to develop an implementation plan to ensure that 100 percent of the grandfathered cars and locomotives under § 224.107 be brought into compliance with the requirements

During the waiver period, AAR members will inspect the retroreflective sheeting on rail cars at the single car air brake test

During the waiver period, if 20

percent or more of the minimum material area requirement per side is found to be damaged, obscured, (as with graffiti) or missing on either side, then the damaged, obscured, or missing sheeting must be replaced

retroreflective readings should be measured in accordance with the conditions outlined in in Table 1 to Subpart B of Part 224 (particularly at the condition of 30-degree entrance angle and 0.5-degree observation angle). Measurements should be taken as-found and also after cleaning. Additionally, measurements from a new sheet of the same brand and model should be taken under the same control.

   b. AAR will develop standard comparative panels based on the FHWA model, which will meet the minimum photometric performance requirements of§ 224.103, Characteristics of retroreflective sheeting, (i.e., 45 cd/fc/ft2 for yellow or fluorescent yellow sheeting and 75 cd/fc/ft2 for white sheeting with a specific condition of 30-degree entrance angle and 0.5-degree observation angle).
   c. Evaluation procedures and a training program for using the standard comparative panels will be established.
   d. Training materials relevant to the evaluation procedure will be developed during the 3-year period while work on the procedure is completed. When completed, AAR members will provide training to their employees who will be conducting the tests and will make the training materials and records available to FRA upon request.

7. At the end of the 3-year waiver period, AAR will have finalized development of a standard comparison panel, evaluation procedures, and a training program. AAR will provide semi-annual updates to FRA of its progress.

The three year waiver period gives us all a little breathing room

The three year waiver period gives us all a little breathing room. That being said, Tealinc is still updating grandfathered reflectors and updating Umler with the new application date when opportunistic. We would rather take care of these reflectors now when the cars become available rather than go through a frenzied program to capture them in a few years.

We will monitor the developments on reflector regulation and report them to you as we become aware of them.

As always, Tealinc stands ready to employ our varied knowledge and talents to work for you.

Steve Christian is the Manager Value Creation-Operations 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

AAR: Energy, manufacturing weakness negatively impacted rail traffic in 2015

In reporting rail traffic for all of 2015, Association of American Railroads (AAR) Senior Vice President John T. Gray said, “Weaknesses in energy and manufacturing, as well as, world economic softening had a negative impact on both carload and intermodal traffic in 2015.”

Total rail traffic moved in the U.S. in 2015 was about 28 million carloads and intermodal units, down 2.5% compared to 2014; total U.S. carload traffic for 2015 dropped 6.1, AAR reported on Jan. 6, 2016. Additionally, carload traffic in the month of December 2015 dropped 15.6% from December 2014.

Total U.S. carload traffic for 2015 was 14,266,204 carloads, down 6.1% or 911,823 carloads, while intermodal containers and trailers were 13,710,646 units, up 1.6% or 213,432 containers and trailers when compared to the same period in 2014. For 2015, total rail traffic volume in the United States was 27,976,850 carloads and intermodal units, down 2.5% or 698,391 carloads and intermodal units from last year.

Total rail traffic moved in the U.S. in 2015 was about 28 million carloads and intermodal units, down 2.5% compared to 2014; total U.S. carload traffic for 2015 dropped 6.1%

"Railroads can't do much about the macroeconomic environment, but what they have done and are doing is making sure they operate safely and efficiently to maximize their customers' opportunities to grow their own business. The nation's railroads are well positioned to serve their customers in 2016," Gray said.

Carload traffic in December 2015 totaled 1,219,443 carloads, down 15.6% or 225,477 carloads from December 2014. U.S. railroads also originated 1,179,907 containers and trailers in December 2015, down 0.7% or 8,502 units from the same month last year. For December 2015, combined U.S. carload and intermodal originations were 2,399,350, down 8.9% or 233,979 carloads and intermodal units from December 2014.

In December 2015, four of the 20 carload commodity categories tracked by the AAR each month saw carload gains compared with December 2014. This included: miscellaneous carloads, up 46.6% or 8,572 carloads; motor vehicles and parts, up 5.2% or 3,975 carloads; chemicals, up 0.7% or 963 carloads; and waste and scrap, up 3.3% or 510 carloads. Commodities that saw declines in December 2015 from December 2014 included: coal, down 27.9% or 81,625 carloads; petroleum and petroleum products, down 20.5% or 16,240 carloads; and metallic ores, down 39.1% or 17,087 carloads.

Carload traffic in the month of December 2015 dropped 15.6% from December 2014

Excluding coal, carloads were down 7.7% or 67,647 carloads in December 2015 from December 2014.

Read the entire article here

Industrial Inside

Automakers on [January 5, 2016] set a new U.S. sales record for 2015 even as December sales fell short of expectations, and most forecasters said sales should rise to another record this year.

U.S. auto sales in 2015 set record after strong December

For full year 2015, U.S. sales hit a record of 17.47 million vehicles, breaking the mark of 17.41 million vehicles in 2000, according to Autodata Corp. Low gasoline prices, easy credit and moderate economic growth boosted the industry.

WardsAuto, which provides data used by the U.S. government for economic analysis, said 2015 sales set a record at 17.39 million vehicles sold, breaking the 2000 mark of 17.35 million.

“The U.S. economy continues to expand and the most important factors that drive demand for new vehicles are in place, so we expect to see a second consecutive year of record industry sales in 2016”

...predicted that sales will peak in 2016, at 17.75 million vehicles... decline to 17.4 million in 2017, 16.1 million in 2018 and 15.2 million in 2019

What still scares the Federal Reserve

Autodata said December sales rose 9 percent. On an annualized rate, accounting for seasonal factors, December sales were 17.34 million vehicles, well below the 18.1 million vehicles expected by a Thomson Reuters poll of 38 economists and analysts.

“The U.S. economy continues to expand and the most important factors that drive demand for new vehicles are in place, so we expect to see a second consecutive year of record industry sales in 2016,” said Mustafa Mohatarem, chief economist for General Motors Co (GM.N).

Mohatarem said the most important factors are employment and growth in personal income, which will remain strong this year.

Some forecasters, including TrueCar Inc, said U.S. sales will hit 18 million vehicles this year. The Federal Reserve's recent interest rate increase should not deter sales.

"Interest rates would have to reach 3 percent next year before we see an inflection point that causes the year-over-year growth rate to stagnate," said TrueCar's chief economist, Oliver Strauss.

Mark Wakefield, leader of the auto practice at AlixPartners, predicted that sales will peak in 2016, at 17.75 million vehicles. Wakefield said sales will then decline to 17.4 million in 2017, 16.1 million in 2018 and 15.2 million in 2019. He said they would then gradually rise to 17 million in 2022.

Wakefield said in an interview that a century of data, along with factors such as a glut of quality used vehicles, pointed to a moderate downturn that will begin to be felt in 2017.

He said 800,000 more used cars will be available this year than in 2015.

The industry has steadily recovered since 2009, when sales hit 10.4 million vehicles, the lowest level since World War Two, adjusted for population.

In December, GM, the top seller in the United States, said its sales rose 5.7 percent from a year ago. Ford Motor Co (F.N), the No. 2 U.S. automaker, reported a jump of 8 percent.

Read the entire article at:
http://www.reuters.com/article/us-usa-autos-idUSKBN0UJ1C620160105

Financial Focus

Alan Greenspan calls the job of being America's top central banker "torture."

Current Federal Reserve chair Janet Yellen just raised interest rates for the first time in nearly a decade. By all accounts, the rate hike [in December] was smooth and successful. Yet Yellen doesn't get much of a victory lap. Already the questions are coming: what's next?

Yellen put the chance of a U.S. recession [in 2016] at about 10%.

But even beyond the "R-word," Yellen will have to deal with a number of problems. No one likes uncertainty. And right now, the Fed is serving up a lot of it by sending mixed signals.

The key to understanding where the U.S. economy and the Fed are going in 2016 is to think about what could go wrong

[In December], the central bank said the economy was doing pretty well and its forecasts implied four more interest rate hikes [in 2016]. But Yellen repeatedly stressed that the Fed would go slow because there are real risks to the economy and markets. She used the word "gradual" 13 times and "accommodative" (think low rates) seven times.

The key to understanding where the U.S. economy and the Fed are going in 2016 is to think about what could go wrong. What are the shocks that keep the Fed up at night?

1. No inflation. By far the biggest stress for members of the Fed is that inflation is AWOL. "What scares them is inflation. It's been about inflation all year," says Ellen Zentner, chief U.S. economist at Morgan Stanley. She correctly predicted that the Fed wouldn't raise rates until this December. The Fed's target is 2% inflation. Its preferred inflation metric is running at 0.4%.

Yellen continues to believe this ultra-low inflation is just a passing fad

For regular Americans, the absence of inflation isn't so bad. It means prices on everything from gas to housing to clothes aren't going up much. But economists on Wall Street and at the Fed believe that a healthy economy has at least some inflation. Think about inflation like your heartbeat going up when you exercise. It's a good sign you're working hard.

Yellen continues to believe this ultra-low inflation is just a passing fad. But the Fed statement and Yellen's remarks [in December] stressed that the policy committee was "carefully" and "closely" watching to see if inflation picks up in 2016.

"We have a significant shortfall on inflation, so we are calling attention to the importance of verifying that things evolve in line with our forecasts," said Yellen.

Zentner takes that to mean she actually needs to see data showing an uptick before raising rates again. She thinks that isn't going to happen for awhile, so the Fed probably won't raise rates again until June -- and thus only do three, not four, rate hikes [in 2016].

"The Fed is concerned about the stability of global markets. They are very dependent upon each other"

"(Yellen's statement) really raises the bar on what it will take to raise [rates] further," says Zentner.

2. China. The wild card for 2016 is China. The economic slowdown there has thrown a number of countries like Brazil and Canada into recession.

It's hard to get a good read on what's going on in China because the government statistics are so unreliable. The Community Party says the worst is over after the Chinese stock market meltdown over the summer, but the government has a tendency to tinker and intervene.

The global

The exchange rate snafu in August caused such a severe negative reaction around the world that the Fed didn't raise interest rates in September, as

economic headwinds from China and elsewhere have also helped keep inflation down in America

had been widely expected.

"The Fed is concerned about the stability of global markets. They are very dependent upon each other," says Tony Bedikian, managing director of global markets at Citizens Bank.

The U.S. economy has held up well despite China's problems. Spending by American consumers and companies is the main driver of economy -- accounting for about 85% of economic activity. So China's influence is small, but it's there.

The global economic headwinds from China and elsewhere have also helped keep inflation down in America.

"If we continue to import a good deal of deflation from China, that spells uncertainty around the outlook for inflation," says Zentner of Morgan Stanley.

3. What will the market do? What's hardest for the Fed to manage in 2016 is the markets. The first rate hike in December was basically preceded by a big blinking sign that said "it's coming." That's why the reaction was small and went as expected.

The first rate hike in December was basically preceded by a big blinking sign that said "it's coming."

But already the Fed and Wall Street aren't in sync. The Fed is implying four rate hikes [in 2016] and most Wall Street economists predict only two or three.

Big problems pop up when the Fed and the markets aren't on the same page. The Fed seems to want to avoid the mistakes of the 2004 rate tightening cycle where the Fed telegraphed it would raise rates 25 basis points at about every meeting.

"It didn't have the tightening effect that it was supposed to. That led to too much overheating too quickly," says Zentner of Morgan Stanley.

The Fed is doing everything it can to say that's NOT the plan this time. But, of course, that brings uncertainty. If [the stock market] downturn worsens in 2016, it will make it very hard for the Fed to justify more rate hikes.

"We have been and will continue to track developments in financial markets very carefully"

"We have been and will continue to track developments in financial markets very carefully," said Yellen.

Read the entire article at:
http://money.cnn.com/2015/12/22/news/economy/fed-rate-hike-2016/index.html

The Edge

…with Julie Mink

Happy New Year to you, our customers, our families, our friends and our colleagues. As with the ringing in of each New Year, I find myself optimistic for 2016 and eager to get started.

As I have the past several years, I got to start off the New Year in Chicago at the Midwest

Association of Rail Shippers (MARS) conference along with about 600 plus other rail industry professionals including railroaders (both Class I's and shortlines), shippers (from every commodity group), and lessors / investors (that's us!). In most every facet of my life, I find myself able to find a silver lining in most every situation. The glass is most always half full in my opinion so I was shocked at this year's MARS meeting to realize that when it comes to the 2016 U.S. economic health, I along with most all of this year's MARS attendees, are pessimists. It was during a presentation by an economist that we were told we were more pessimistic than the general public and it caught me slightly off guard. I sum our industry up as a group of realists, based on facts and lead by numbers and facts, not pessimists.

If you've never attended one of the North American Rail Shippers (NARS) conferences, you may want to locate a meeting near you. The meetings are informative and the networking opportunities provide you time to greet others in the industry with similar issues as your own.

As a lessor, we at Tealinc spend a fair amount of time studying commodity trends, financial updates and economic stats to get a good gauge on what's going on within the industry we participate so going into the 2016 MARS meeting I had a fair grasp on what I "thought" the big picture looked like for 2016. We in the rail industry often judge the true health of the economy based on what we see in these reports. In 2007 as prices were rising and in 2008 before the housing bubble burst, steel prices fell and the housing market tanked, it was fairly simple to use these reports to translate the true health (rather sickness) of the economy. When there is a demand for freight, it's easy to gauge that things in the economy are moving. Reports in 2015 began to take on the same tone and in my opinion started to indicate that things were slowing down albeit most all other reports indicated that the economy was healthy. Measures used by economists to judge the health of the economy such as unemployment rates (unchanged at 5% - see Figure 1 below), consumer spending, GDP and inflation all lend themselves to support the belief that the U.S. economy is slowly growing.

Figure1 – Unemployment rate, seasonally adjusted, December 2013 – December 2015

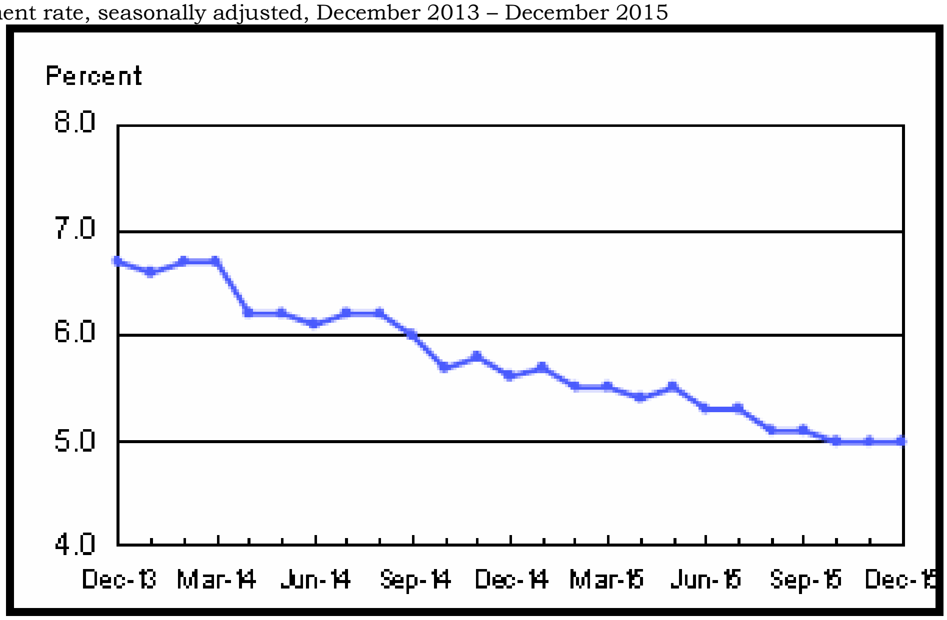


Chart source: **http://www.bls.gov/news.release/pdf/empsit.pdf**

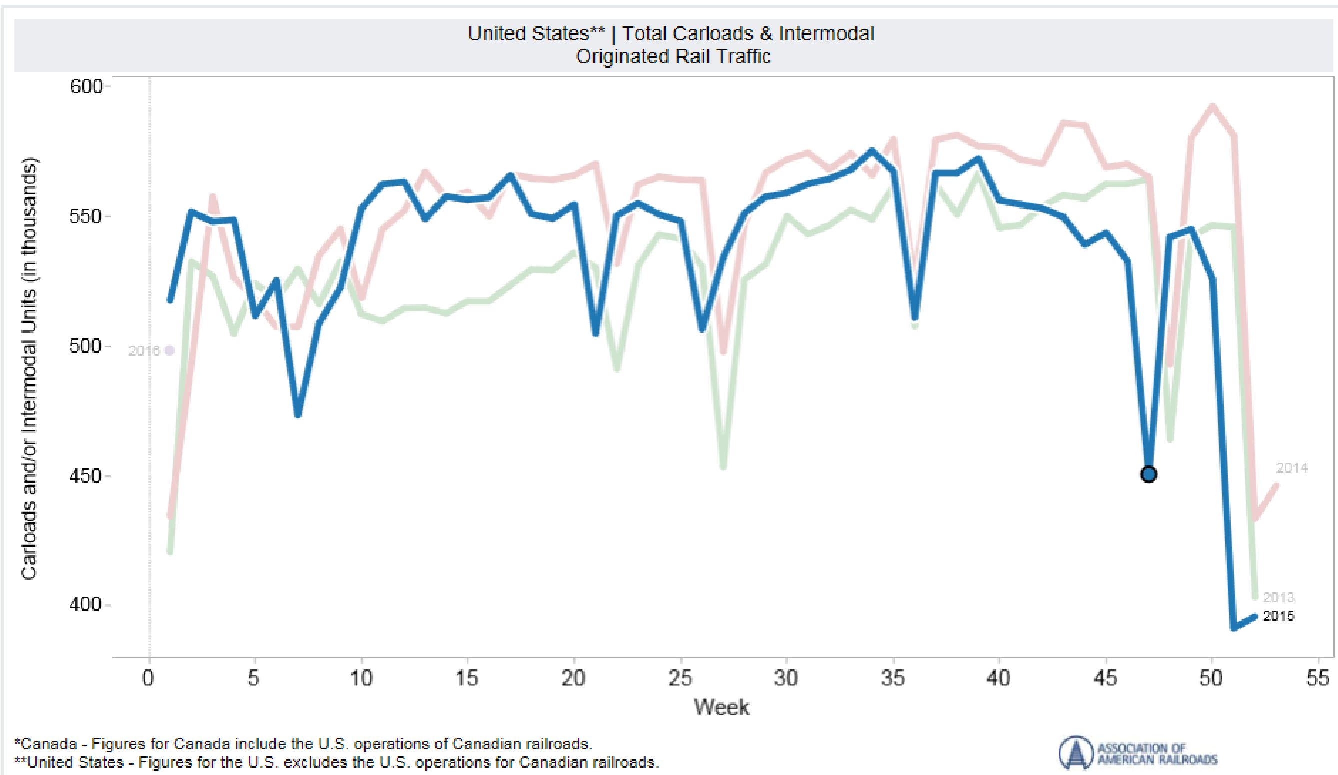
An excerpt from the Conference Board's December meeting:

> "Consumer confidence improved in December, following a moderate decrease in November," said Lynn Franco, Director of Economic Indicators at The Conference Board. "As 2015 draws to a close, consumers' assessment of the current state of the economy remains positive, particularly their assessment of the job market. Looking ahead to 2016, consumers are expecting little change in both business conditions and the labor market.

Expectations regarding their financial outlook are mixed, but the optimists continue to outweigh the pessimists."

While life for those of us involved in commodity transportation shows a developing picture laced with graphs indicating lower volumes and carload shipments, this may be a sign of the new normal and things to come and begs the question, what's the bright spot and where's the next big uptick? Within Figure 2 below you'll see a graph indicating overall U.S. originated carload and intermodal traffic for 2015 outlined in blue against a backdrop showing 2013 (green) and 2014 (red) traffic. The pattern of peaks and valleys is similar in all three years when seasonally adjusted; however, it's clear to see in 2015 there were far fewer peaks in carload and intermodal traffic than in the previous two years.

Figure 2 – U.S. Total Carloads & Intermodal (2013 – 2015)



When looking at the commodity specific data for rail's highest volume categories including coal (Figure 3), grain (Figure 5) and petroleum products (Figure 4) it's easy to see what an impact increased value of the dollar and the downturn in the U.S. energy sector is playing on the volume of rail freight that moved in 2015 and indications that decreased carloads in each of these commodities will persist in 2016.

As a railcar owner and operating lessor, we find ourselves looking at the statistics of railcar supply and railcar demand and working to identify the specific needs of our customers. Through our market intelligence, we anticipate that approximately 23% of the coal car fleet (including aluminum and steel bodied gondolas and hoppers) will be in storage or otherwise sitting idle in the next 90 days. We also identify oversupply of equipment designated to haul sand and oil products to support the U.S. oil and gas industry (tank cars and covered hoppers) but a lack in the supply of equipment to haul aggregate products (think open top hoppers needed to haul rock and gravel to support the recently approved FAST).

Figure 3 – U.S. Originated Coal Rail Traffic (2013 – 2015)

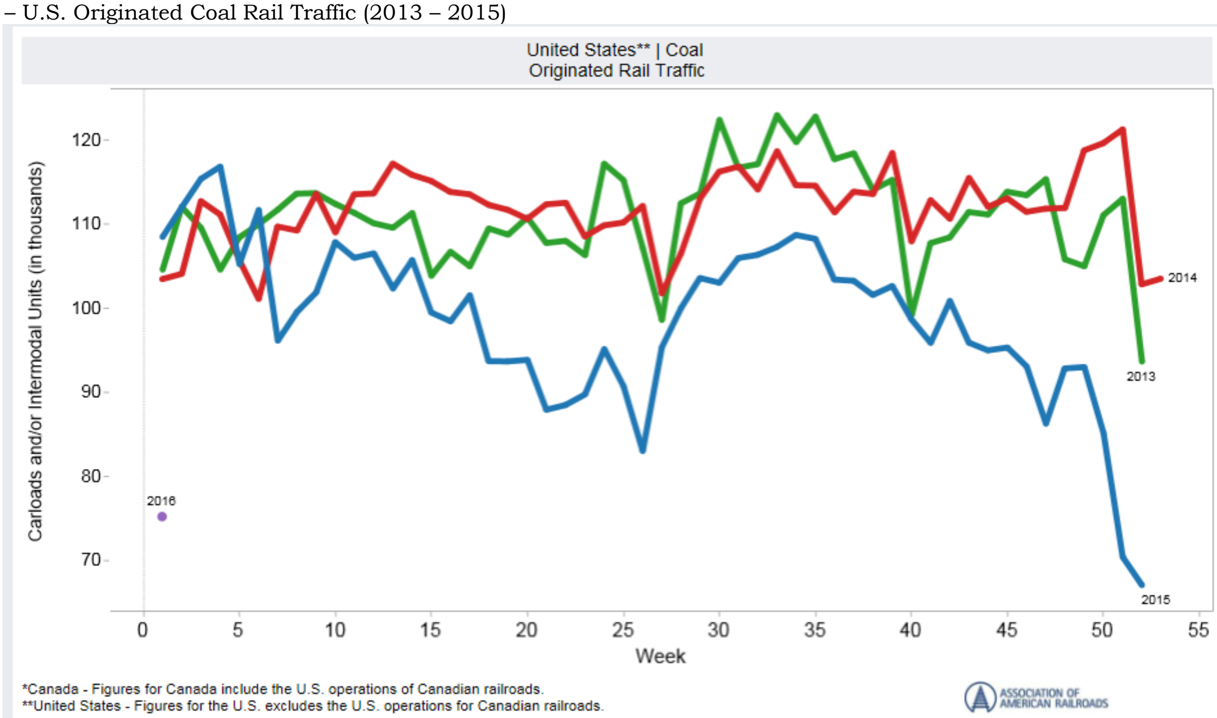


Figure 4 – U.S. Originated Petroleum & Petroleum Products Rail Traffic (2013 – 2015)

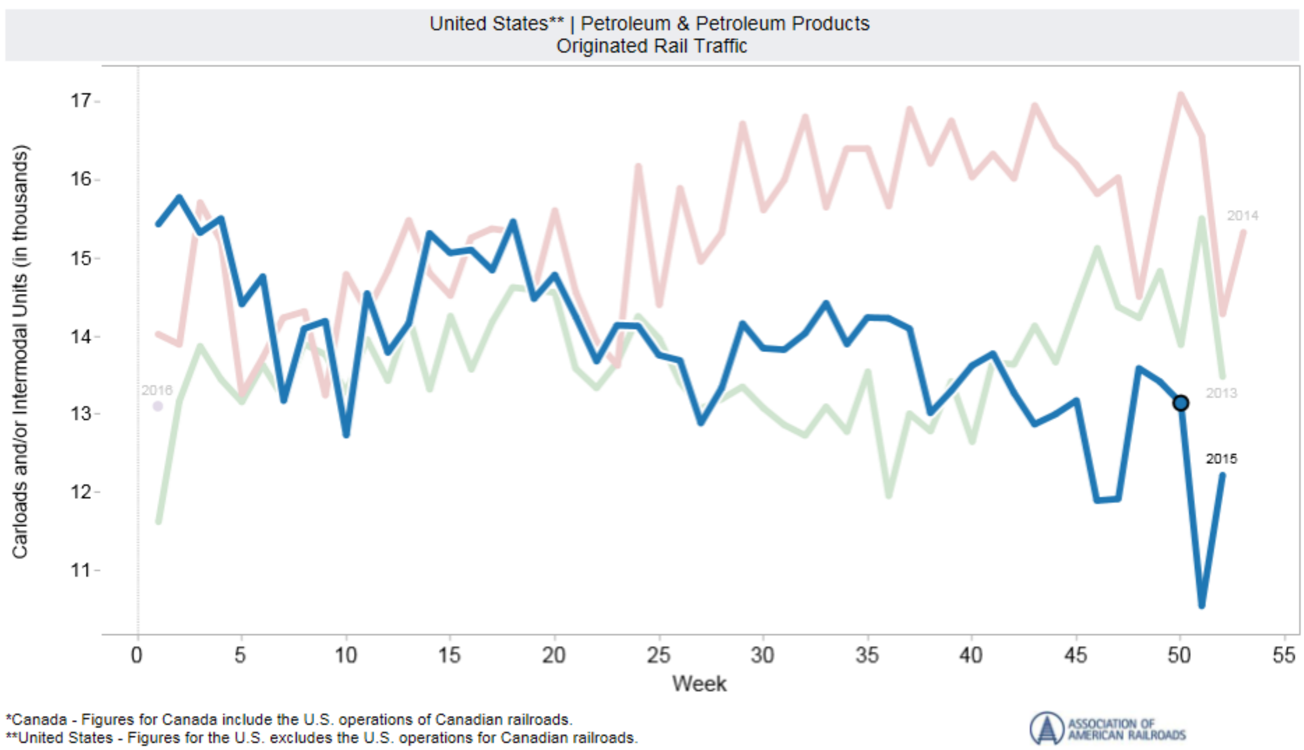
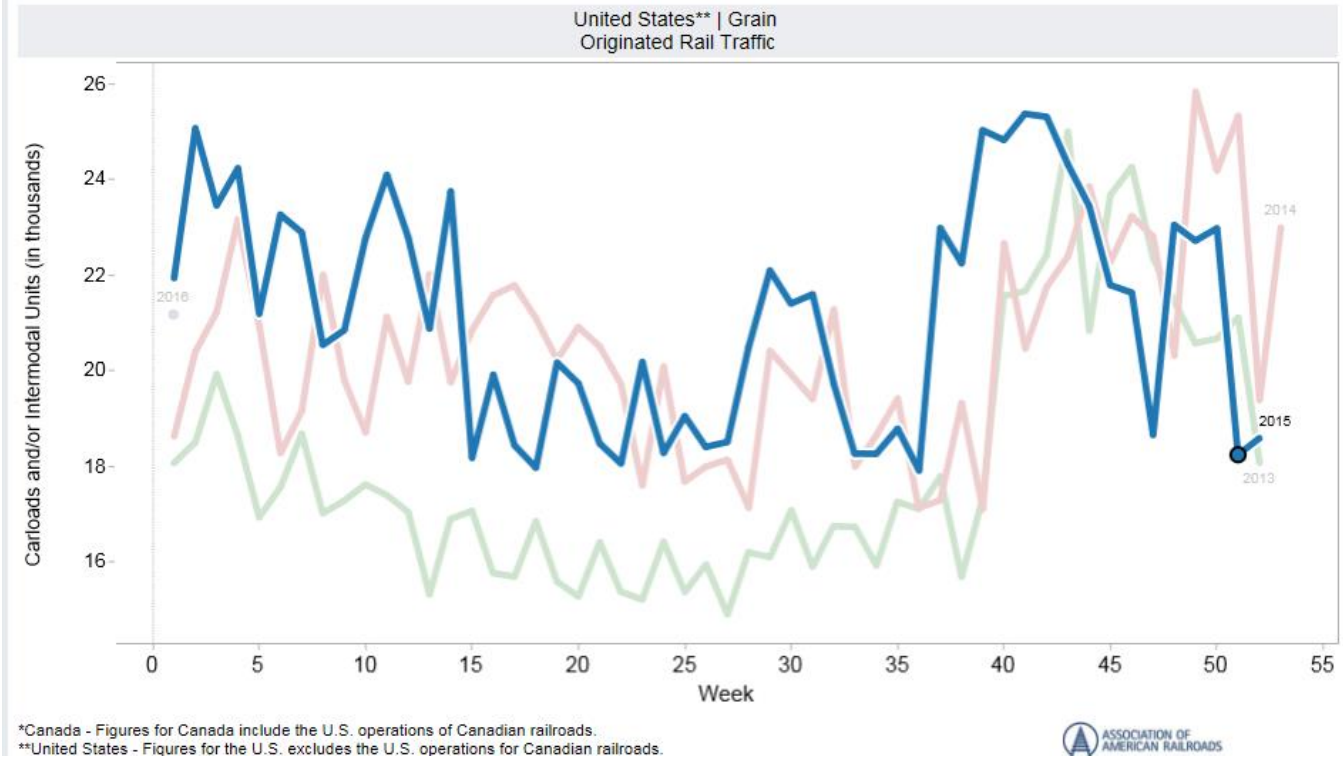


Figure 5 – U.S. Originated Grain Rail Traffic (2013 – 2015)



All charts adapted from: **https://www.aar.org/data-center/rail-traffic-data**

It's interesting to note the conflict of opinion between "the economy is doing fine" and "the economy is not doing fine". From a rail perspective, we believe it will be a year of settling into a new normal with significantly smaller traffic flows which will require careful planning for all shippers. Note the first article in this newsletter an announcement by Union Pacific on railcars on line and increased charges to hold them. Don't expect the railroad (any of them) to deal with surplus private cars and in some instance railroad cars assigned to customers without financial consequence. From a general economy perspective, expect the glass to be half full particularly if the world economic health recovers a bit. In either case there appears to be conflicting data supporting two entirely separate conclusions which will take some getting used to until they begin to better align.

We look forward to earning your business!