Touchbase July 2013

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Demurrage and storage policy changes on BNSF effective Thursday, August 1, 2013

Change applies to both private and rail-controlled equipment

Railroad & Policy Updates

BNSF is committed to providing timely and consistent service. With increasing demand in the high-growth areas of North Dakota and Montana, BNSF encourages active management of car loading and unloading to support our ability to provide such service.

Effective Thursday, Aug. 1, 2013, chargeable demurrage for traffic destined to all stations between Culbertson, Mont., and Dilworth, Minn. (including all branches) and all stations between Fisher, Mont., and Dilworth, Minn. (including all branches) will be converted from BNSF's Snapshot Demurrage program to BNSF's Straight Plan Demurrage program.

This conversion will remove the chargeable tier levels based on car count and implement a standard charge of $150 per chargeable day.

Straight Plan B Policy (rail-controlled and private cars):

Rail-Controlled Equipment

- Time starts: first 0001
- Allowed time for loading: one credit
- Allowed time for unloading: two credits
- Other free time: designated holidays

Private-Controlled Equipment

- Time starts: first 0001
- Private cars on private track: no charges
- All days are chargeable

This change applies to both private and rail-controlled equipment and all related transportation tariffs except BNSF 4022, BNSF 4023, BNSF 4024 and BNSF 4025.

For More Information Contact Kansas City Southern Railway direct at www.bnsf.com.

CSX Plant Switch Mandate on July 1, 2013!

Effective July 1, 2013, CSX will no longer accept switch requests submitted by any means other than those outlined below for CSX served locations:

Electronic Options

•ShipCSX Plant Switch
Submit your switch requests directly with CSX using the Plant Switch

CSX will have a plant switch mandate on July 1, 2013

tool on ShipCSX, our secure transaction website at:
http://www.ShipCSX.com

•EDI (Electronic Data Interchange) 423
Submit your switch requests directly from your inventory system to CSX's internal system via an electronic file. More information can be found at: http://www.csx.com/index.cfm/customers/tools/edi-electronic-data-interchange/

•ShipCSX Mobile
Submit requests to place or pull railcars from your location by using the mobile version of ShipCSX directly from your handheld device. To access this tool, type in http://mobile.shipcsx.com in your smartphone browser

Telephone Option

•IVR (Interactive Voice Response) Plant Switch
If a computer or smartphone is unavailable, submit requests to place or pull railcars from your location using any telephone by dialing, 1-877-ShipCSX (744-7279), options 5-2-5. (ShipCSX user ID and password are required).

As always, we are here for you and are willing to work with you to figure out which method would best suit your specific business needs.

For more information please call 1-877-ShipCSX (1-877-744-7279), Option 2 and ask for the "Plant Switch Team" or email Plant_Switch@csx.com.

Basic locomotive safety measure

Mechanical Brief with Steve Christian

In the late 60's, I began my railroad career as a Laborer. I worked in both the Car department and the Roundhouse doing the tasks that more skilled personnel didn't want to do. I didn't realize that this experience gave me a lot of information that I still draw from today.

The locomotive engineers that I came in contact with were very fussy when it came to the condition of the locomotives that they operated. Items that seemed minor to me were not viewed that way by them. I was reminded that a 100 car loaded train with 100 ton cars meant that they were pulling over 26 million pounds. With that many pounds, the locomotive has a difficult time getting moving from a dead stop and to stop when in motion. Any conditions on the locomotive that hindered the reaction of the engineer or the performance of the locomotive could have disastrous effects.

While industrial switching rarely involves moving and stopping 100 loaded cars, the standards of safety should be the same. Let's touch on a few of them that are low hanging fruit but very crucial:

1. Sanders - Despite what many people think, sanders are not just for wet or icy conditions. Sand must be available at all times to avoid wheel slip when pulling heavy loads or for emergency stopping. Therefore, sanders must be checked for proper operation daily and sand boxes kept

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Headlight should be used at all times of the day. They should have full beams for the direction you are going and low beam for the opposite end

full.

2. Clear Vision - Clean windows daily with a non-streaking cleaner. Oil from the stacks and other greasy contaminants hit your windows every day. If the sun hits a greasy, streaked window you will have a difficult time seeing hazards or personnel. A few minutes in cleaning windows could save an injury or equipment damage. All locomotives had sun visors applied originally. Over the years many are no longer in place. Just like with an automobile, sun visors are a necessity for safe operation.

3. Clean and Clear Walkways - You put great emphasis on eliminating clutter and spills in your plant. Your locomotive should be treated the same way. Trips, slips and falls can be easily avoided by a basic housekeeping regime for your locomotive.

4. Lights - Check all lights to make sure they are operational. By all lights, I mean all headlights class lights, number lights, engine room lights, cab lights, gauge lights, rotating lights, and under deck lights. Replace defective bulbs and repair soon as they are found. Headlights should be used at all times of day. They should be on full beam for the direction you are going and low beam for the opposite end. It improves your vision in reduced light situations and also makes you more visible to others at all times.

5. Brakes - Perform a set and release test before operating the locomotive every day. Check the brakes shoes for wear and observe the piston travel measurement. Replace shoes as needed and adjust the piston travel if needed before you put the locomotive in service.

6. Engine Room Cleanliness - Keep the engine and engine compartment clean. The accumulation of engine oil and other fluids can create a fire hazard. When the engine is regularly cleaned, you can easily spot and report leaks for remedial action. On the railroad, FRA (Federal Railway Administration) regulations prevent the cleanliness of the engine room from getting out of hand. In this industry, this issue comes under OSHA. In my experience, OSHA does not pay a lot of attention to this. In fact, I have seen the accumulation of oil and other assorted fluids cover the engine room floor a couple of inches deep. Now, there are floor drains that allow fluids to drain from the engine room. In this particular case, OSHA was so concerned about the ugly trail of oil up and down their tracks that they plugged the drains. Please don't do this! I will speak in more detail about engine room cleanliness and the measures that are available to make this easier and more efficient in a future article so stay tuned!

These are just a few very simple items that can save an injury or equipment damage. There are many more that can be implemented to increase the safety of your operation.

The Tealinc team has a wide variety of talent and experiences. Let us know when we can put them to work for 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**.*

AAR reports increased rail traffic for May 2013

Railroad Traffic

The Association of American Railroads (AAR) June 6, 2013 reported that total U.S. rail traffic increased for the month of May 2013 as well as for the week ending June 1, 2013. May 2013 saw the first year-over-year monthly total carload increase in 16 months, and the 42nd straight monthly increase in intermodal traffic.

Intermodal traffic in May totaled 1,214,116 containers and trailers, up 3 percent (35,790 units) compared with May 2012. The weekly average of 242,823 units for May was the highest weekly intermodal average for any May in history. Carloads originated in May totaled 1,401,584, up 0.7 percent (9,551 carloads) compared with the same month last year.

Eleven of the 20 major commodity categories tracked on a monthly basis by AAR saw year-over-year increases in May compared with the same month last year. Commodities with the biggest carload increases in May included petroleum and petroleum products, up 41.8 percent or 20,837 carloads; motor vehicles and parts, up 6.2 percent or 4,916 carloads, and crushed stone, gravel and sand, up 5.2 percent or 5,191 carloads.

Commodity categories with carload declines last month included grain, down 20 percent or 19,895 carloads; primary metal products, down 7.2 percent or 3,989 carloads; and grain mill products, down 6.9 percent or 3,332 carloads.

Commodity with the biggest carload included petroleum and petroleum products, motor vehicles and parts, and crushed stone, gravel and sand

Year-over-year monthly carloads excluding coal and grain were up 3.6 percent or 26,772 carloads.

"The economy is still not firing on all cylinders, and rail traffic in May reflects that," said AAR Senior Vice President of Policy and Economics John Gray. "Pockets of rail traffic growth, such as autos, nonmetallic minerals, and commodities related to crude oil extraction are being countered by continued weakness in steel-related commodities, paper, and grain, among others. Like everyone else, railroads are hopeful that the economy will soon finally shake off its malaise and start reaching its potential."

Visit the AAR at: **https://www.aar.org/newsandevents/Freight-Rail-Traffic/Pages/2013-06-06-railtraffic.aspx**

Industrial Inside

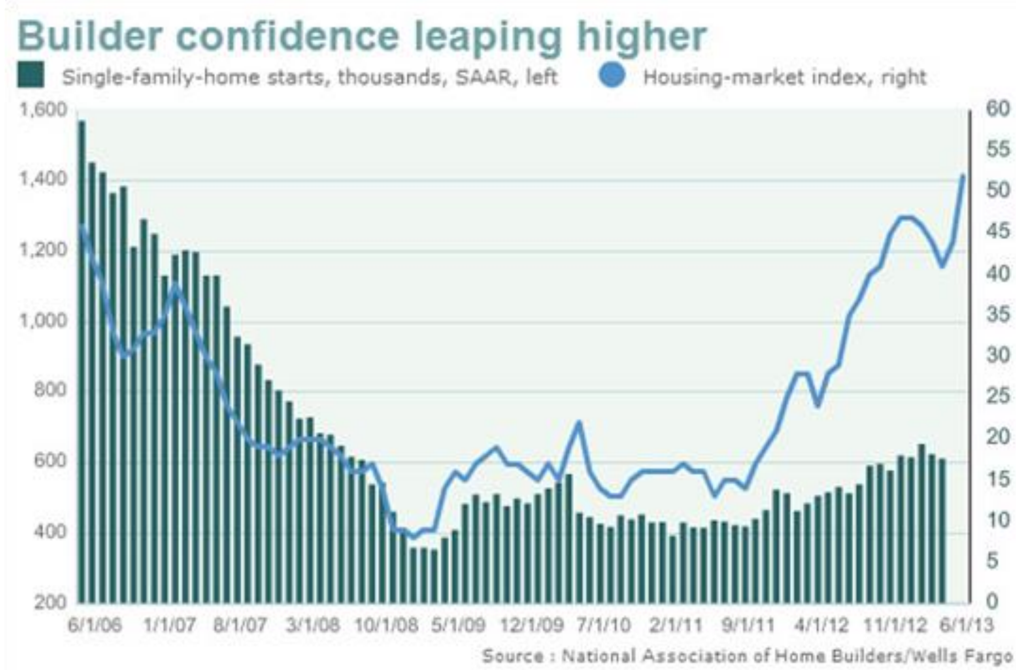
Builders say housing is back

Is the housing recovery for real? It looks that way, as a key measure of home builder confidence crossed a major threshold on June 17, 2013.

The National Association of Home Builders' index hit 52 in June, marking the first time it has been above 50 in seven years. A reading above 50 indicates that more builders say sales conditions are good rather than poor. The index has been posting gains for the last year, but those moves only indicated that builders thought the market was less bad than it had been.

"It's further confirmation of what we've felt for six months at least -- that the housing market is back and will continue to improve," said David Crowe, chief economist for the trade group.

June is typically a month when builders report slower activity, after the spring buying season peaks. But this year they're reporting better traffic levels and better sales conditions than they did in May.



The National Association of Home Builders' index hit 52 in June, marking the first time it has been above 50 in seven years.

The NAHB survey found that 41% of builders said current conditions are positive; almost double the percentage who said they were poor. A year ago, only 15% said conditions are good, while three times as many said it was a poor environment.

There have been many recent signs of a housing recovery, including a drop in foreclosures, a steady rise in home prices and an increase in sales of both new and previously-owned homes. A rise in mortgage rates, up from recent record lows, has done little to slow the housing market.

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In Crowe's opinion, "it's not the level of rates that has held back the markets, it's the access to credit," he said, referencing the difficulties that buyers have had getting home loans in recent years.
In fact, Crowe thinks higher rates are actually encouraging some lenders to be more aggressive in making new home loans, because they can no longer depend on a stream of refinancing for steady business.

A report is due later this week on the actual level of home building from the Census Bureau. Additionally, the National Association of Realtors will issue a report on sales of previously-owned homes. Economists expect that both readings will show continued improvement.

Read the entire article at:

Lumber exports to Asia – predominantly China - are rising to accommodate busy home and commercial construction markets.

http://money.cnn.com/2013/06/17/news/economy/housing-recovery-builders-confidence/index.html

Chart courtesy of: **http://www.marketwatch.com/story/home-builder-confidence-hits-seven-year-high-2013-06-17**

Forest products rail traffic will take a turn for the better this year if lumber demand remains strong

Seven years ago, Class Is' forest products traffic was at high ebb. U.S. housing starts soared to a record 2.2 million units, propelling lumber demand, and millions of newspapers and magazines were printed, spurring graphic paper usage.

Since lumber and paper generate the vast majority of Class Is' forest products business, those trends were favorable in 2006.

But three years later, U.S. housing starts tumbled to about 500,000 units, and a number of newspapers and magazines went out of business. Railroads since have waited for trends to swing back in their favor.

It appears the pendulum is on the way back up for lumber. U.S. housing starts are increasing this year due to low mortgage rates, home prices and inventories. In addition, lumber exports to Asia — predominantly China — are rising to accommodate busy home and commercial construction markets.

As a result, U.S. railroads' forest products traffic through 2013's first 19 weeks rose 2.7 percent to 207,995 units compared with volume from the same 2012 period, according to Association of American Railroads (AAR) data. Lumber volume in the period, which ended May 11, climbed more than 12 percent.

Among the Class Is, several reported forest products volume and/or revenue gains in the first quarter largely because of higher lumber consumption.

For example, CN reported a 1 percent dip in carloads, but a 2 percent gain in revenue primarily due to the U.S. housing rebound and a 2 percent increase in exported lumber.

"We're seeing a gradual recovery. U.S. housing starts are projected to hit 950,000 in 2013," says Doug MacDonald, CN's vice president of industrial products. "They appear to be more sustainable at about 1.4 million. But we're not going back to the peak of 2 million-plus in 2006."

Norfolk Southern Corp.'s Scott McGregor concurs.

"We are cautiously optimistic about the housing market," says the Class I's group VP of paper, clay and forest products. "I think we'll see lumber grow at a moderate pace, and keep the peaks and valleys out."

However, paper traffic figures to remain sluggish despite some growth in pulp board that's used to produce boxes, milk cartons and grocery store

U.S. railroads' forest products traffic through 2013's first 19 weeks rose compared with volume from the same 2012 period

bags.

U.S. and Canadian railroads' paper volume was down about 1 percent and 3 percent, respectively, through the year's first 19 weeks, AAR data shows.

"Graphic paper has struggled and I think it will continue to struggle a bit because of the communication and electronic age. Catalogs do well, but newspapers aren't doing so well," says McGregor.

The bottom line for Class Is' forest products business: Carloads and revenue won't be stellar for the remainder of 2013, but likely will exceed levels from the past five years.

Read the entire article at:
http://www.progressiverailroading.com/rail_industry_trends/article/Forest-products-rail-traffic-will-take-a-turn-for-the-better-this-year-if-lumber-demand-remains-strong-36417?source=pr_digital06/26/2013&usedate=06/26/2013&email=julie@tealinc.com&cid=14175

Financial Focus

2014: When the economy finally takes off

When will America's economy finally stop limping along? 2014. That's what a growing number of economists are predicting.

Things have been grim since the recession officially ended in June 2009. Job creation is barely outpacing population growth, and our GDP growth is sluggish.

But next year, economists foresee a convergence of several factors that could finally kick this recovery into high gear.

First on the list is the federal budget. After epic fights this year over the "fiscal cliff," the "sequester," and a bunch of other wonky stuff, lawmakers have finally managed to cobble together enough tax hikes and spending cuts to at least stabilize the country's credit rating.

Rising home prices are helping, too. Fewer Americans are trapped in underwater mortgages that leave them owing more on their home than the house is worth. Rising prices also boost the net worth of homeowners, adding to consumer confidence.

Businesses have been complaining for years about "uncertainty" in the public policy area. Next year, some of those unknowns will finally be resolved.

Companies have held off on hiring because they're waiting to see how they'll be affected by health care and finance reform laws, according to John Silvia, chief economist at Wells Fargo. The implementation details of both of those laws will become clearer over the next year.

"Dodd-Frank and Obamacare need to be worked out, then employment takes off," Silvia said. He believes 2014 "could be a very good year."

Steve Blitz, chief economist at ITG Investment Research, thinks GDP growth in the 3.5% to 4% range is possible for 2014, if the global economy doesn't deteriorate

Just how good? Steve Blitz, chief economist at ITG Investment Research, thinks GDP growth in the 3.5% to 4% range is possible for 2014, if the global economy doesn't deteriorate. Monthly job growth could peak in the 300,000 range, he believes.

Blitz anticipates a large numbers of Millennials entering the car-and-home-buying stage of life, giving an added boost to the economy. Plus, the drop in defense spending associated with the draw-down of troops from Iraq and Afghanistan should be largely behind us.

"All of these should add up to a better economy in 2014," Blitz said.

At Merrill Lynch, the economists' projections aren't quite as high -- the bank sees America's economic growth next year at 2.7%. But Merrill Lynch thinks the Federal Reserve will hike interest rates at the end of 2014, versus the 2015 timeframe it projected earlier this year. For that to happen, the bank believes, unemployment needs to fall to 6.5% from its current 7.6% rate -- a feat that would require job growth to accelerate to 300,000 new positions per month.

That's a number that looks more like a real recovery.

The Federal Reserve recently acknowledged that target was possible, when it lowered its unemployment forecast and said it believes the rate may hit 6.5% in 2014.

Stocks and bonds had a fire sale on the news, with investors fixated on the possibility that the Fed may stop pumping money into the economy.

Lost in the panic was the promising idea that 2014 may be the year when we finally put the Great Recession squarely behind us.

Learn more at:
http://money.cnn.com/2013/06/24/news/economy/economy-recovery-2014/index.html

The Edge

We continue to see spurts of life in the economy. It sometimes feels like we're in a living breathing Ayn Rand Novel, probably Atlas Shrugged where the government and like-minded institutional groups are running with a full head of steam trying to distribute earnings of those actually working and making money to those that believe in entitlements without efforts. And those that are actually creating growth in the market continue to slug through economics and politics to provide a means of economic stability and a foundation of future prosperity. Okay I'm done rambling!

Welcome to summer and happy Independence Day. Our thanks go out to those service men and women that have kept our nation "free". We appreciate your contributions.

There have been two developments that I believe worthy of discussion this month, first railroad differential pricing and second continued political pressure on the coal industry.

Please read the first article in this newsletter. Railroads manage supply (and demand) differentials by setting transportation prices that differentiate between high and lower transportation demand regions. What's interesting about the article is that a railroad is targeting an accessorial rate structure to manage capital structure tradeoffs. Although this isn't new it is in my backyard so is of keen interest. There have been tens (hundreds?) of millions of dollars of private infrastructure invested in the Bakken. There have also been likewise investments by railroads in their infrastructure. The message is that it still isn't enough and history shows that the assumption that building more, e.g. investment of capital dollars, is rarely the sole answer. Once built intensive management plans need to be implemented to utilize the capital investments. The Railroads message, "manage your assets or we'll incent you to do so via charges for poor utilization". You'd think this would only effect oil related transportation but it doesn't. The impact is to all rail transportation in the geographic region and those flowing into and out of the region. So if you're a lumber distributor, grain elevator, shortline railroad in the state you'll probably impacted. Plan accordingly.

Politics are always difficult for me because I'm a free market thinker and believe true supply and demand balances should dictate not political markets. If a market is built on the political stroke of a pen it can be unraveled with the same stroke of the pen. The presidents broad brushed recently announced policies to fight coal fired carbon emissions are indicative of his approach to most important mega-issues. Don't get me wrong, I live in Montana and its beautiful here. I don't want any more coal fired pollution (or any for that matter) than the next person. But machete approaches don't appear to be working in the health care reform why will it work in carbon emissions reform? The coal market has enough to deal with, reacting to natural gas competition (a clean alternative fuel) than to also be expected to react to a "political pen" market. Stay Tuned!

We continue to be fortunate to work with a lot of progressive customers. Thanks for your business!

We look forward to earning your business!