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STB to Class I's: file grain order plans

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Railroad & Policy Updates

The Surface Transportation Board is requiring Canadian Pacific and BNSF "to publicly file their plans to timely resolve their backlogs of grain car orders, as well as weekly status reports pertaining to grain car service."

STB's decision, Docket No. EP 724 (Sub-No. 2), issued June 20, 2014, is "[b]ased on concerns raised before and after the public hearing on this matter," STB said.

Said STB: "It is ordered:

"1. CP is directed to report to the Board, by June 27, 2014, its plan to resolve the backlog of grain car orders on its United States network, including its timeline for doing so, and its plan for ensuring a fluid and reliable interchange of loaded and empty grain cars with RCP&E.

"2. BNSF is directed to report to the Board, by June 27, 2014, an updated plan to resolve the backlog of grain car orders on its network, including its timeline for doing so.

"3. CP and BNSF are directed to provide weekly status reports, beginning June 27, 2014, regarding the transportation of grain on their networks (for CP, on its United States network). As part of these status reports, CP and BNSF shall provide, by state, the running total of outstanding grain car orders at the end of the week, the total number of new orders for the week, the total number of orders filled for the week, the number of orders cancelled by shippers for the week, the number of orders cancelled by CP or BNSF for the week, and the average number of days late for all outstanding grain car orders. CP and BNSF shall also report the number of cars allocated to grain car service each week, including the number of private cars in service. CP's report shall include the number of grain cars requested by RCP&E and the number of cars furnished by CP on a weekly basis. These reports will be required for each carrier until it resolves its backlog of unfilled grain car orders."

In commenting, STB noted, "Although the data submitted by both railroads indicates some initial progress toward reducing their grain car order backlogs and grain car delays, the Board remains very concerned about the limited time period until the next harvest, the large quantities of grain yet to be moved, and the railroads' paths toward meeting their respective commitments."

Read the entire article:
http://www.railwayage.com/index.php/regulatory/stb-to-class-is-file-grain-order-plans.html?channel=40

Mechanical Brief with Steve Christian

History is the best teacher

1960's & 1970's elevators were overflowing with grain and railroad could not haul it out fast enough

This spring, the Canadian railroads were being beat up for their inability to move a record grain crop. The railroads blame the severe winter weather and a lack of grain storage. The shippers and the Canadian government primarily blame the railroads for poor planning, insufficient railcar supply and lack of power to move trains. Probably all of these factors contributed to the problem.

This year's Canadian situation brings back a lot of memories for me of moving bumper grain crops back in the late 1960's and early 1970's in the Midwest. Though winter weather was not a factor back then, there are similarities. Here are a few that come to mind:

Grain Storage
In the late 60's and early 70's, grain elevators would fill up fast. The railroads could not haul the grain away fast enough. As the result grain, was stored anywhere there was a flat slab of concrete which included the main streets of many small towns. In some cases, grain was stored on the bare ground. A great deal of grain went bad.

In more recent times, farmers built a great deal of on-farm storage. Elevators built a great deal of overflow storage that is covered and ventilated. Those areas are well maintained and can handle a lot of grain deliveries in a short period of time.

Power (Locomotives)
There was so much grain moving that trains designated as "extra" were run. Unfortunately, power in those days was just sufficient to move the normal traffic. As the result, trains were put together grossly underpowered. You need the most power getting the train moving from being stopped. I can recall engineers trying to get their trains started only to get most of the slack out and then having wheel slip and being unable to move. Those old "Hog Heads" (slang for engineers) would get the sanders going and back up the train until all of the slack was taken up. Then they would move forward on the sanded rail taking up the slack and get the train moving forward. Once in motion they could keep the train going until the next crew change point. Then the process would start again.

In modern times, sufficient power is still an issue, but I doubt that they would even think of taking a train out of the terminal that was underpowered.

Railcars
This was probably the area that slowed the movement of grain the most back in the 60's and 70's. When times were normal, elevators would reject anything but covered hoppers to load. When the grain crop was huge, covered hoppers were in short supply. Elevators became desperate to move the crop out of storage and would load anything that was spotted for loading.

Boxcars were used for years for moving grain. Wooden planks (aka grain doors) were laid on their sides in the doorways one on top of the other until about 2/3's of the doorway was blocked. They were nailed to a wood strip on each door post. The seams were stuffed with clean rags, etc. The grain was loaded in the boxcar's interior behind the grain doors. Once the grain

Locomotives did not have the horsepower to move a lot of grain in the 60's and 70's

was loaded, the doors would be closed and sealed. A company came up with "Paper" grain doors which were actually heavy cardboard with steel bands running through them. The bands ran past the cardboard on each end and were used for nailing them to the wood strips along the door posts.

Very ingenious and very effective if you used good, substantial boxcars. Unfortunately, when good, substantial boxcars were not available, you used anything you had. The lesser cars would leak grain out though gaps and holes in the floors. We were sent out with boxes of shop rags, screw drivers and paint scrapers. We would walk tracks full of loaded cars and stuff rags in the cracks and holes to stop the leaks. Sometimes the door posts were not strong enough to hold the grain doors and the grain doors would push the boxcar doors out and allow the grain to run out. Which meant the car was set out and the load transferred into another car.

Railroads and shippers have made tremendous improvements... they responded to huge challenges with innovation and investment

In the years since, there was a boom in the production of covered hoppers, especially private marked. I can't imagine anyone considering loading grain in a boxcar again. That being said there are shortages of covered hoppers from time to time.

The point of this article is to point out that history is a good teacher. The railroads and shippers have made tremendous improvements in moving grain over the years. They responded to huge challenges with innovation and investment.

We all have challenges to overcome. Having someone on your side with a lot of history is a great advantage in meeting those challenges. Tealinc can be your partner in analyzing those challenges, providing solutions and implementing change. We have a wide variety and depth of knowledge, talents and experiences that can be put 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****.*

Railroad Traffic

Crude oil traffic up 1.4 percent; carload traffic and intermodal up in May 2014

The Association of American Railroads (AAR) today reports U.S. Class I railroads originated 110,164 carloads of crude oil in the first quarter of 2014, 1.4 percent more than in the fourth quarter of 2013 and, by 1,559 carloads, the most ever in any quarter. In the first quarter of 2014, crude oil accounted for 1.6 percent of total originated carloads for U.S. rail traffic.

AAR also reported increased U.S. rail traffic for May 2014, with both carload and intermodal volumes increasing compared with May 2013. Intermodal traffic in May totaled 1,045,880 containers and trailers, up 8 percent (77,526 units) compared with May 2013, and the 54th-consecutive year-over-year monthly increase for intermodal volume. The weekly average of 261,470 intermodal units on U.S. railroads in May 2014 was the third-highest average for any month in history.

May intermodal traffic third-highest

Meanwhile, U.S. carload originations totaled 1,186,314 in May 2014, up

average for any month in history

6.1 percent (68,301 carloads) over May 2013. Total carloads averaged 296,579 per week in May, the highest weekly average for May since 2008 and the highest weekly average for any month since October 2011.

Seventeen of the 20 commodity categories tracked by the AAR each month saw year-over-year carload increases in May. Commodities with the biggest carload increases included grain, up 18,612 carloads, or 29.7 percent; crushed stone, sand and gravel, up 12,256 carloads, or 14.6 percent; and coal, up 12,196 carloads, or 2.8 percent. May marked the seventh straight double-digit year-over-year gain for grain. Railroads have not had a month with 17 of 20 commodity categories increased since the spring of 2010, when the country was just beginning to rebound from the most severe stages of the recession.

Commodity categories with carload declines last month included food products, down 948 carloads, or 3.7 percent; coke, down 666 carloads, or 4.3 percent; and nonmetallic minerals, down 457 carloads, or 2.1 percent.

Commodities with the biggest carload increases were grain, crushed stone, sand, and gravel, and coal

Excluding coal and grain, carloads were up 37,493 carloads, or 6 percent in May, the biggest such percentage increase since December 2012.

"If you're looking for a sign that the economy is shaking off its first quarter lethargy, rail traffic in May could be that sign," said AAR Senior Vice President John T. Gray. "Crushed stone, steel, motor vehicles, lumber, chemicals— the list of commodities showing carload gains in May goes on and on. And intermodal continues to surge. All in all, there's very little to dislike about May's rail traffic figures. We hope it really is a sign that the economy is beginning a period of solid growth."

Visit the AAR at:
https://www.aar.org/newsandevents/Freight-Rail-Traffic/Pages/2014-06-05-railtraffic.aspx#.U77AuvldVqU

Industrial Inside

Recovery is close for steel industry

Year 2014 is expected to be a "transition year" for the steel industry with all major steel-consuming countries expected to log positive growth, according to Industry Outlook. This will also be the first time since 2006 when the growth rate in China will be outpaced by growth elsewhere. As China transitions to a services and consumer-driven economic growth mode, national mandates to rationalize capacity will affect supply. Meanwhile, global steel supply and demand will grow in tandem with economic recovery around the world.

In the long term, as urban population increases worldwide, so will the need for steel to build skyscrapers and public-transport infrastructure. Emerging economies will also continue to be a major driver of demand due to the huge amount of steel required for urbanization and industrialization. The demand for steel is thus expected to remain strong in the years to come.

First time since 2006 when the growth rate in China will be outpaced by growth elsewhere

World crude steel production was 1,607 Mt in 2013, reflecting a 3.5% annual climb, led by increases in Asia and the Middle East that helped

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counter the declines elsewhere. China was once again the leading producer of steel, contributing a record 48.6% of the global output, followed by Japan, United States and India. Fourth-quarter production in Europe rebounded with the first positive year-over-year movement since the fourth quarter of 2011. This was in contrast to the decline in production seen all through the year.

The steel industry started 2014 on a weak footing with a 0.4% decline in production in January, dragged down by China due to soft industrial activities during the Chinese Lunar New Year holidays. The industry soon regained its ground, as production picked up in China and India. Gains in the European Union, thanks to a recovery in steel demand in the region, coupled with a strong rise in the Middle East also contributed to the uptrend.

Per the latest data available from the World Steel Association, global steel production has increased 2.2% to 668 Mt in the first 5 months of 2014. China has churned out 50% of the total, growing 2.7% over the same time frame. Production in the European Union rose 4.6% to 70 Mt. United States held the third spot with production climbing 1.5% to 49 Mt. Japan nudged up 1.5% to 45 Mt, slipping from its second position as a recent increase in sales tax by the government hurt demand in the country. India moved up 1.9% to reach 34 Mt.

Started 2014 on a weak footing with 0.4% decline in production in January

The average capacity utilization ratio in 2013 was 78% compared with 76% in 2012. The crude steel capacity utilization ratio in January 2014 was 74.4%, climbing to 77.6% in February and 79% in March, while slipping nominally to 78.7% in April. Capacity utilization ratio in May 2014 was 78.5%, down 0.7 percentage points year over year and 0.2 percentage points sequentially.
Read the entire article at:
http://www.metalworkingworldmagazine.com/recovery-is-close-for-steel-industry/

Financial Focus

Well, this picture keeps getting uglier.

Gross domestic product -- the broadest measure of economic growth -- contracted at a 2.9% annual rate in January through March, according to the latest revision from the Bureau of Economic Analysis. That's the weakest quarter for the U.S. economy since the Great Recession.

Economists described the number as "horrid" and "dreadful," but then shrugged it off. So did investors. In fact, stocks rose.

3 reasons not to freak out about -2.9% GDP

"Despite the awful start to the year, the U.S. economy is nowhere close to recession," said Sal Guatieri, senior economist for BMO Capital Markets.

Here are three key reasons why economists aren't too worried about another crisis.

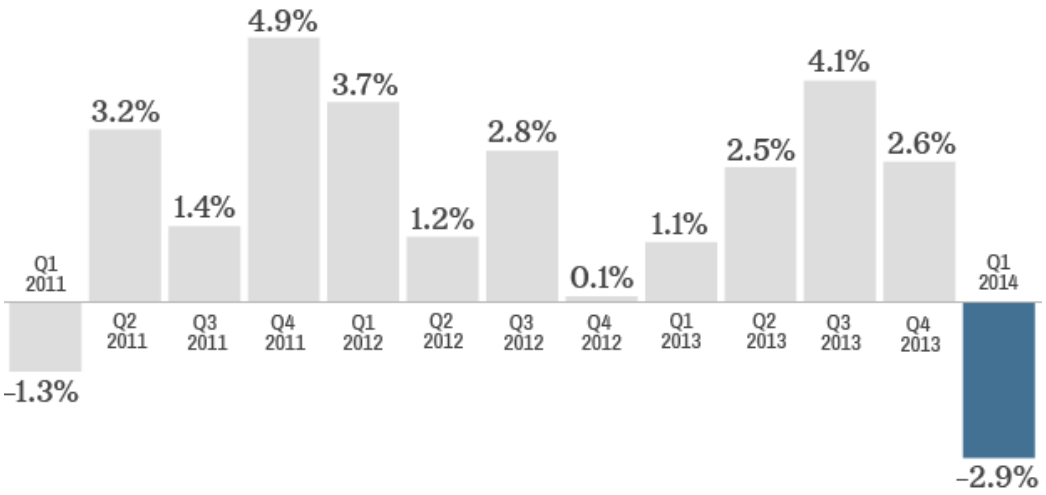
1) They blame the weather: Consumer spending is the single largest driver

of the U.S. economy, but blizzards kept customers away from restaurants, shopping malls, car lots and open houses more than usual this winter.

The icy winter also slowed shipments both domestically and abroad, and as a result, exports to foreign countries declined.

Since those slowdowns were weather-related, economists are convinced they're only temporary.

The blizzards kept customers away from restaurants, shopping malls, car lots and open houses more than usual this winter



NOTE: GDP % QUARTERLY CHANGE, SEASONALLY ADJUSTED AT ANNUAL RATES; SOURCE: BUREAU OF ECONOMIC ANALYSIS

"The larger contraction in GDP in the first quarter is not a sign that the U.S. is suffering from a fundamental slowdown -- it was still largely due to the extreme weather," said Paul Dales, senior U.S. economist with Capital Economics.

But there's one caveat here: There was a sharp decline in health care spending at the beginning of the year, which economists aren't able to fully explain yet. Enrollment in health insurance is up due to the Affordable Care Act, but it looks like Americans spent more on health care in the fourth quarter, and then pulled back on that spending at the beginning of 2014.

There's a big question here: If more people have health insurance, why did spending on health care suddenly fall? There are no answers yet, and it may turn out to be a temporary blip, but it's something economists and policymakers will be watching.

Some economists take this GDP number with a grain of salt because it will be revised again July

2) It's not a final number: Some economists take this GDP number with a grain of salt because it will be revised again July when the Bureau of Economic Analysis makes historical revisions, going back to 1999.

The weak number also doesn't fit with the story told by other key economic indicators, like job growth.

3) The economy has improved since March: Hiring slowed in December, but it has since picked up again. In the last five months, the economy added 1.1 million jobs. Hiring at that level is consistent with an economy that is growing modestly around 2% to 3% a year -- not an economy that is

Hiring at that level is consistent with an economy that is growing modestly around 2% to 3% a year

contracting.

"Disappointing data showing U.S. GDP suffered a steeper than previously thought downturn at the start of the year has been rapidly overtaken by more up-to-date survey data, which show the economy surging in June," said Chris Williamson, chief economist for Markit.

The same old story remains: This recovery is underway, but it's choppy and still very slow.

Learn more at:
http://money.cnn.com/2014/06/25/news/economy/gdp-negative/index.html?iid=SF_E_River

The Edge

What is the true value of having a railcar to load?

Recently the railroad service interruptions that were partially caused by the brutally long drawn out winter and partially caused by Wall Street's continuous pressure on publicly traded railroads and their subsequent reactions to this pressure in the form of ill resource planning for such a natural phenomenon brought the value of having a railcar to load to the forefront.

There are many ways of quantifying not having a railcar to load.

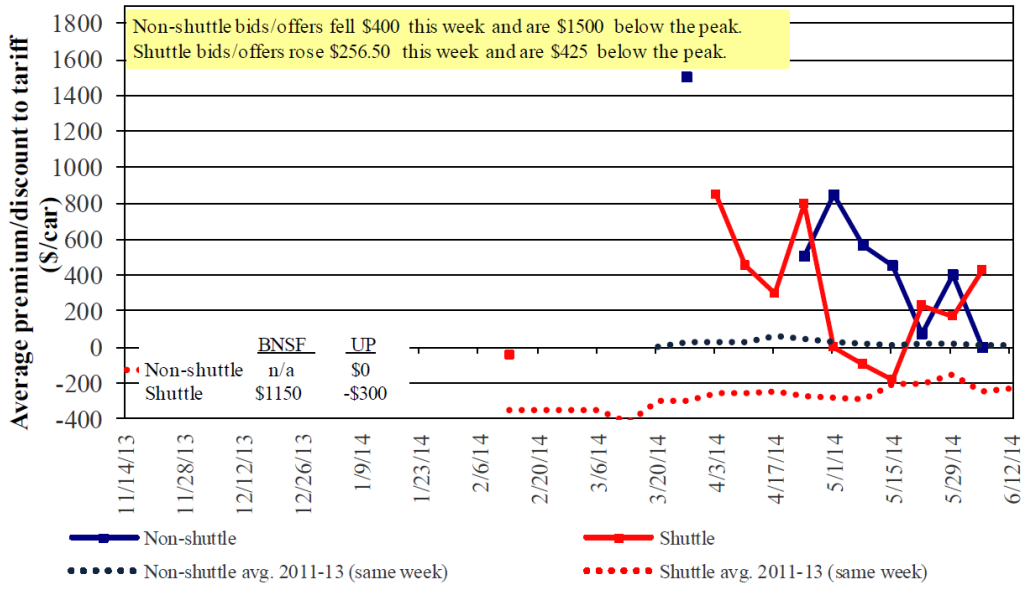
One way is from a pure product replacement viewpoint. Most companies are shipping into a very competitive environment where if they don't supply a product in a timely fashion they're replaced as a supplier by another like type competitive supplier. In this case it's not the cost of the railcar that is the true economic impact but the lost value in revenues not earned on a railcar load(s) of the product. This can range from the single digit amounts to hundreds of dollars per ton depending on the product shipped.

Another way to view not having a railcar to load is in lost productivity and subsequent increase production costs. For instance if a customer doesn't receive their input product the facility has a choice, shut down, reduce shift work and ramp up later through increased workers or hours worked, or find an alternative mode of transportation if at all feasible. Not having a railcar to load so that a facility receives its input product results in costs that make the extra cost of a private railcar pretty minor.

And yet another view is to compare the ability to buy freight (railcars and transportation) on an open market with some amount of certainty that a railcar will show up versus simply placing orders. A good comparison of that system is displayed below in the chart courtesy of the USDA. In this case, the price of railcars on your loading track take on different values and can be expensive when everyone wants a railcar.

Figure 4

Bids/Offers for Railcars to be Delivered in June 2014, Secondary Market



Non-shuttle bids include unit-train and single-car bids. n/a = not available.

Source: Transportation & Marketing Programs/AMS/USDA

There are many other methods of calculating or determining railcar costs or lack thereof. Regardless of your method of calculation and determination of input costs we think you'd agree that not having a railcar to load can be quite expensive. If you need assistance evaluating your cost of not having a railcar to load feel free to contact us and we'll be happy to help out.

We look forward to earning your business!