Tealinc

Touchbase

July 2015

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Tealinc Updates

Julie Mink promoted to President of Tealinc, Ltd.

Tealinc, Ltd. announced June 18, 2015 the promotion of Julie Mink to President of the company. The promotion is effective as of July 1, 2015. Julie Mink, currently Vice President, has worked with Tealinc for the past ten years in ever increasingly responsible positions.

“Julie’s leadership acumen, attention to detail, quality control and work ethic combined with the ability to anticipate customer requirements has contributed significantly to Tealinc, Ltd.’s rapid growth over the past several years” says Darell Luther, current President. “This is a natural progression for Tealinc, Ltd. insuring continuity to our customers and the company’s continued success.”

Darell Luther, company founder, will continue to support the company in a business development role and will retain the title of CEO.

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Railroad & Policy Updates

Canadian Border Services Agency implementing mandatory data requirements for Canadian shipments

[On Monday, June 15, 2015, the Union Pacific Railroad released notification number CN2015-42 that] the Canada Border Services Agency (CBSA) has announced mandatory data requirements for shipments destined to Canada. Effective July 10, 2015, regulatory amendments will require that two pieces of data be included in eManifest bills of lading for all parties listed on the bill of lading:

- Full civic address
- Postal code for Canadian addresses, ZIP code for U.S. addresses and country code for overseas origins

In order to prepare for the July 10 enforcement date, Union Pacific customers must provide the required data in rail bills of lading beginning with originating shipments on June 29, 2015. The information listed above must be provided for ALL parties listed on the bill of lading.

Failure to provide the correct information on ALL parties could result in shipments being held at the Canadian border and penalties assessed by the CBSA.

Please direct any questions to the National Customer Service Center or your Union Pacific representative.

Contact the Union Pacific Railroad through the website at:
www.up.com

Mechanical Brief with Steve Christian

Analyze your industry track configuration

I can remember a time when all the railroads had rail yards and sidings of all sizes tucked all over their railroads. The track conditions were not mainline standards by any means but they served well to store cars that were not presently needed. I went on many inspection trips in remote rail yards all around the system to look for program repair candidates for the railroad's big back shops.

I even remember when local railroad station agents would accommodate a customer that had too many cars show up at one time at their plant. He would have the local switch crew tuck away some cars until the customer could take them. In those days, there was always a place to tuck away some cars if you needed to and the railroad accommodated you as they could. Yes, I am that old!

Today, most of those small yards and remote sidings have been torn out in favor of fewer huge yards with long tracks with enough spacing between the tracks to accommodate vehicle traffic. The roadbed and tracks are built to mainline standards. The railroads have spent a tremendous amount of money upgrading their yards and eliminating yards that were used strictly for storage.

As with many things in the railroad industry the Class I railroads look to shift the responsibility to the customers to have the track infrastructure in place on the customer's property to handle any influx of railcars that might occur. If you have not sensed it yet, they are doing this by tightening up OT5 requirements for track space for private cars and jacking up demurrage rates.

I would recommend that every railroad shipper/unloader analyze their track infrastructure and determine if it is sufficient to handle their present and future needs. This analysis should include things like:

- If the plant has to shut down for whatever reason, do we have enough room to hold all of our privately marked cars? If not, do we have an off-site storage facility available to handle those cars?
- How much are our railroad demurrage bills?
- How much do we have to handle your cars to get them loaded/unloaded? Would a different track configuration make it more efficient?
- Can the railroad always deliver cars whenever they show up at our gate?
- When the railroad delivers cars, does that slow down or halt our operations?
- Do we have to coordinate the pickup or delivery of cars by the railroad so that you don't get your switch crew trapped (railroad lingo is "frogged in")?

If your analysis shows that you have been living with high demurrage bills and/or you seem to be running in semi-crisis mode whenever the railroad picks up or delivers cars, you should consider making changes to your track capacity and layout. Just adding track is not the answer. You need

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to define your issues and develop a plan to address them. That plan could involve changes in track condition, track layout, switching procedures, loading/unloading practices and equipment among many others. Don't just live with your problems, solve them.

As always, Tealinc stands ready to employ our many years of experience and varied talents in the railroad industry 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

AAR: U.S. rail traffic numbers reflect 'mixed signals' so far in 2015

May was the first month on record that U.S. container and trailer traffic exceeded carloads, the Association of American Railroads reported June 3, 2015.

U.S. railroads' carload traffic in May plummeted 9.4 percent to 1,074,285 units compared with carload traffic in May 2014. Railroads also originated 1,085,968 containers and trailers last month, up 3.8 percent or 40,057 units compared with the number of intermodal units a year ago.

Combined, U.S. carload and intermodal traffic fell 3.2 percent to 2,160,253 for the month.

Railroads logged gains in five of the 20 carload commodities tracked by AAR in May: motor vehicles and parts, up 4.5 percent or 3,207 carloads; waste and nonferrous scrap, up 3.8 percent or 519 carloads; and grain mill products, up 1.3 percent or 480 carloads. Traffic dropped for coal, down 17.4 percent or 77,992 carloads; primary metal products, down 17.9 percent or 8,058 carloads; and grain, down 6.2 percent or 5,027 carloads.

For the first five months of 2015, total U.S. rail traffic volume slipped 0.6 percent to 11,332,291 carloads and intermodal units.

"Mixed signals is a good term to use to describe the economy nowadays, and it applies to rail traffic too. Intermodal is on its way to another record-breaking year, but carload traffic is not doing well," said AAR Senior Vice President Policy and Economics John Gray in a press release. "The degree to which coal carloads have fallen has been a surprise, and the relative weakness in other carload categories is a sign that the economy is probably not yet in bounce-back mode after a dismal first quarter."

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Total U.S. traffic for the week that ended May 30 was 505,543 carloads and intermodal units, down 4.9 percent compared with the same week last year.

Canadian railroads reported 75,173 carloads for the week, down 15.2 percent, and 63,598 intermodal units, up 6.7 percent compared with the same week in 2014. For the first 21 weeks of 2015, Canadian railroads reported cumulative rail traffic volume of 2,903,993 carloads and intermodal containers and trailers, up 3.8 percent.

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Mexican railroads reported 16,849 carloads for the week, up 0.7 percent compared with the same week last year, and 12,202 intermodal units, up 13.8 percent. Cumulative volume on Mexican railroads for the first 21 weeks of 2015 was 559,382 carloads and intermodal containers and trailers, up 2.9 percent from the same point last year.

Read more at:
http://www.progressiverailroading.com/rail_industry_trends/news/AAR-US-rail-traffic-numbers-reflect-mixed-signals-so-far-in-2015--44651?email=julie@tealinc.com&utm_medium=email&utm_source=prdailynews&utm_campaign=prdailynews06/04/2015

Industrial Inside

U.S. east coast ports could gain 10% additional share following Panama Canal expansion

Following the Panama Canal expansion in 2016, up to 10 percent of container traffic to the U.S. from East Asia could shift from West Coast ports to East Coast ports by 2020, according to new research conducted by The Boston Consulting Group (BCG) and C.H. Robinson. Rerouting that volume is equivalent to building a port roughly double the size of the ports in Savannah and Charleston.

The research—which involved extensive scenario analyses based on differing levels of demand, capacity and costs—is believed to be the most comprehensive public study of how the canal's expansion will likely change the way cargo moves, by both water and land, into and within the U.S. The findings are being released in a report titled Wide Open: How the Panama Canal Is Redrawing the Logistics Map.

The $5 billion expansion will permanently alter the competitive balance between ports on the East and West coasts.

The $5 billion expansion will permanently alter the competitive balance between ports on the East and West coasts. With global container flows rising, West Coast ports will still handle more traffic than they do today, but they will experience lower growth rates and their market share will likely fall.

Goods shipped from East Asia through West Coast ports are currently transported by rail and truck as far east as the Ohio River Valley. The canal's expansion will permit big, efficient "post-Panamax" container ships—which have two to three times the capacity of current vessels—to reach the East Coast. Those ports will then become more cost-competitive because it is cheaper to move cargo by water than over land.

West Coast ports, however, will remain the destination of choice for shippers who need to use the fastest routes possible.

After the Panama Canal expands, the battleground region in which East and West Coast ports compete for customers will likely grow and shift several hundred miles west toward Chicago and Memphis, encompassing a region that accounts for about 15 percent of U.S. GDP.

"With the Panama Canal's expansion, shippers will have more options and carriers will compete to provide those options," said Peter Ulrich, a BCG partner, and the leader of the firm's transportation and logistics topic area in North America. "Rail, truck and ocean carriers will all have to reconsider

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ocean carriers will all have to reconsider their routing and investment decisions. And shippers will need to make fundamental choices, such as where to locate distribution centers and how to segregate their cargo heading for the heartland."

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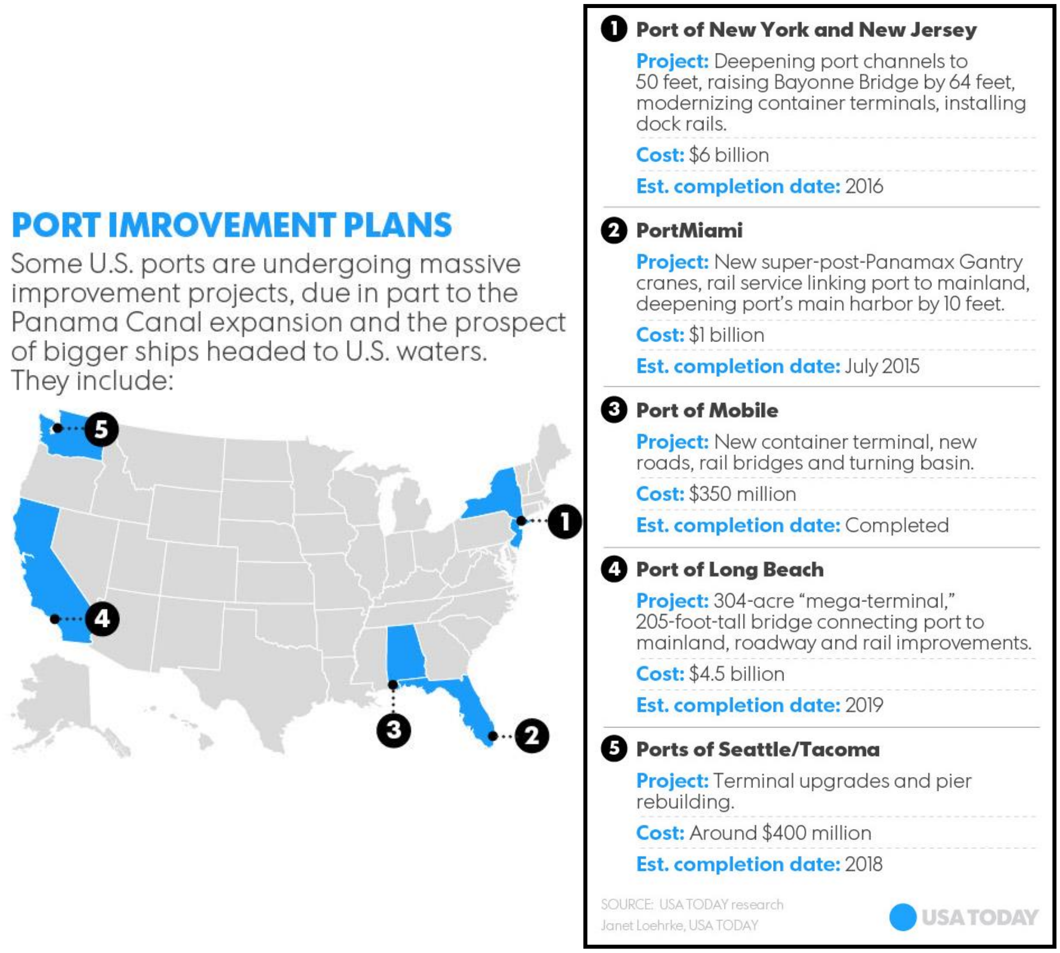
In 2014, about 35 percent of container traffic from East Asia to the U.S. arrived at East Coast ports. According to the report, current growth trends would push that share to 40 percent by 2020 without the canal's expansion. But with the canal expansion in place, the East Coast's share could reach 50 percent—a 10 percent increase in market share.



The report also analyzed four additional scenarios to help define the boundaries of how much container traffic will swing from West Coast to East Coast ports under different conditions for energy prices, canal tolls, infrastructure investments and economic growth. High energy prices, for example, encourage fuel-efficient water travel and favor East Coast ports. Depending on the scenario, these shifts ranged from 0 to 10 percent. Under any scenario, all major U.S. ports will have greater container traffic in 2020 than they do today. But the largest of the West Coast ports, the Los Angeles–Long Beach complex, will handle less traffic than if the expansion were not to occur. That complex will likely experience growth at an average rate of 5 to 10 percent per year through 2020, compared with double-digit growth rates at some East Coast ports.

LA-Long Beach will handle less traffic than if the expansion were not to occur. That complex will likely experience growth

On the East Coast, the New York–New Jersey port complex, and the southeastern ports of Norfolk, Savannah and Charleston are well-positioned to gain traffic by virtue of their relative proximity to the

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battleground region and attractive rail routes to major markets. As the East Coast's largest ports, they are also likely to be on the routes of the post-Panamax vessels, which tend to make fewer, longer stops than smaller vessels.

"Companies accustomed to shipping to the West Coast and relying on relatively fast rail service to cover most of the country will need to take a much more segmented and dynamic approach," said Sri Laxmana, the director of ocean services at C.H. Robinson. "When time is of the essence, that routing may continue to make sense. But for other products, the savings of shipping through the Panama Canal will likely outweigh the extra time in transit."

Read the entire article at:
http://www.chrobinson.com/en/us/About-Us/Newsroom/Press-Releases/2015/US-East-Coast-Ports-Could-Gain-10-Percent-Additional-Share-Following-Panama-Canal-Expansion/

Photo and information table from USA Today at:
http://www.usatoday.com/story/money/2015/04/19/panama-canal-expansion-us-ports/25827175/

Financial Focus

Get ready, America: an interest rate hike is on the horizon.

Fed: No rate hike in June, but more hints for September

The Federal Reserve decided not to raise interest rates in June, but comments [June 17, 2015] suggests the long awaited rate hike could come in September.

"No decision has been made by the committee about the right timing of an increase, but certainly an increase this year is possible," Fed chair Janet Yellen said in a press conference Wednesday afternoon.

Translation: The Fed expects the U.S. economy to be in a good place soon, but it's still in "wait and see" mode. It especially wants to see "further improvement" in wage increases, the ability of part-time workers to find full-time jobs and inflation closer to its 2% target.

"We have made some progress," Yellen underscored.

The Fed expects the U.S. economy to be in a good place soon, but it's still in "wait and see" mode

Economy getting on track: A Fed rate hike would be a healthy sign for the economy. It means the central bank believes the U.S. economy is almost back to full strength after six years of recovery from the Great Recession.

The U.S. economy expanded at a healthy rate of 2.4% last year. Policymakers had hoped this year would be even stronger, but the Fed's latest prediction is for 1.8% to 2% growth. That's another reason the Fed is still hesitant to raise rates.

The Fed slashed interest rates to near 0% in December 2008 to help rejuvenate the battered economy. This summer could likely be the last time interest rates are this low, at least for a long time.

Wall Street has been antsy about the rate hike. The Fed hasn't actually raised rates in almost a decade, so many investors aren't sure how to react. The low interest rates have helped companies borrow money to expand and grow, and they have helped fuel great gains for the stock market.

Stocks rallied after the Fed statement came out at 2pm ET and during Janet Yellen's press conference. The Dow and S&P 500 went from being in the red to ending the day with 0.2% gains.

Interpreting the Fed: The Fed is signaling that it's time to take the training wheels off -- for the economy and the market. The Fed has been preparing America for the change by altering the wording it uses in its recent policy statements. In December, it removed the phrase that it would wait a "considerable time" before acting. In March, it went even further and took out the "patient" to suggest the rate hike timetable was speeding up.

Now a rate hike is being decided on a "meeting by meeting" basis.

"Janet [Yellen] is doing a very good job laying the groundwork" for a September rate hike, says Ted Peters, former Philadelphia Federal Reserve board member and CEO of Bluestone Financial Institutions Fund.

There was little chance the Fed would raise rates at its June meeting. The economy contracted in the first three months of 2015 while inflation and consumer spending remained tepid. Its regained some momentum this spring, particularly in job growth, but the spring snapback wasn't enough to justify a June rate hike.

Still some caution: One reality check was the Fed's expectations for U.S. economic growth this year.

The Fed's policy committee lowered its projections for economic growth significantly. In March, committee members projected 2015 growth would be between 2.3% and 2.7%. The new, lowered projection to about 2% signals how much the weak first quarter hurt the U.S. economy.

America was hit with a jaw-rocking 1-2 punch: the strong dollar is hurting trade and Americans still aren't spending.

The left hook is the strong U.S. dollar, which has climbed in value against the euro, yen and most other world currencies in recent months. That makes it harder for American businesses to sell their products -- computers and cars -- overseas.

The upper cut is spending. The savings rate in America actually rose in April. The annual savings rate, now 5.6%, is higher than it was a year ago, and significantly higher than the pre-recession norm of around 3%.

Americans aren't even spending the extra money that they're getting from low gas prices. Many experts thought low gas prices would increase Americans' confidence to spend. Not really.

The Fed is signaling that it's time to take the training wheels off -- for the economy and the market

America was hit with a jaw-rocking 1-2 punch: the strong dollar is hurting trade and Americans still aren't spending.

The Fed has largely been optimistic

that the economy will gain momentum and a healthy, consistent pick up in spending, inflation and jobs before September.

Now the question is how much those factors stay around this summer. The Fed has largely been optimistic that the economy will gain momentum and a healthy, consistent pick up in spending, inflation and jobs before September.

Read more at:
http://money.cnn.com/2015/06/17/news/economy/federal-reserve-interest-rate-janet-yellen/

The Edge

Happy 4th of July. We certainly appreciate the men and women who are and have served in the military and armed forces of our great nation – **thank you**!

We continue to see significant slides in US rail carload traffic from April, May and possibly June. These carload slides were led by the earlier falling off of crude oil traffic and the subsequent slowing down of infrastructure traffic that supported crude oil. The ripple effect thru the sand and gravel business for pad site development, sand for fracking, steel and pipe for production, wood, pole and structures business for building materials and the secondary ripple effect thru the economy to the consumer goods and automobiles is seemingly catching up with itself. US rail carload declines were led by coal in April 2015 and all carloads continue at a decrease in May 2015 of 9.4% or 111,539 carloads when compared to May 2014 (source AAR). Coal originations (railcars loaded) compared on a prior 52 week basis ending June 13, 2015 versus June 14, 2014 show a decline of 193,535 rail carloads (source DOE/EIA). At an indicative unit train size of 120 cars per train this is a decrease of 1,612 train loads of coal for the year or 31 less trains per week. Extrapolating power requirements that's, at an average of four locomotives per train, a surplus of 124 locomotives in the system. If these were all leased locomotives that would be equivalent to approximately $99,000 per day in extra costs.

These are all interesting statistics but how does this affect you, the shipper or receiver, of railcars?

There's a key statistic that the railroads report to their investors. This statistic is their operating ratio. In simple terms this ratio measures the cost of operations against the revenue those operations generate. While a downturn in railroad traffic seems like a great service opportunity for those still shipping its relatively short lived. Railroads must match service requirements with traffic expectations which means a reduction in locomotive power (lease returns or simply parking unused units) and manpower requirement adjustments. It also means that railroads will scrutinize private railcar use and where possible use railroad assets in lieu of shipper assets.

Generally service will be better simply because of the reduction of the number of railcars required to travel over the same track as was required during higher traffic times. However it is important as a shipper to be as relentless in managing your shipments during slower railroad traffic times as during times of surplus.

Trends that we're seeing that are relevant that are a result of this traffic shift are:

- OT5 applications are being intensely scrutinized, even those that are simply renewals
- Maintenance of railcar occurrences are more plentiful despite there being less overall traffic (railroad mechanical is a revenue generating department as well)
- Rates continue to rise across most all commodity groups (Investors don't want to hear that traffic is down just that you've met your return expectations)
- Accessorial charges have uniformly increased with reductions in allowable exceptions

- Railcar storage locations are starting to fill up and storage rates are rising

We look forward to earning your business!