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July 2006

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CSXI July fuel surcharge to drop 0.5 percentage points

Union Pacific Railroad New Covered Hopper Cleaning Web Option Coming July 1

Railroad Updates

After rising the past three months, CSX Intermodal (CSXI) fuel surcharge is dropping. The company will implement a July surcharge of 21 percent compared with June's 21.5 percent.

CSXI adjusts its surcharge the first Monday of each month based on the difference between the U.S. Department of Energy's (DOE) price index the previous Monday (in this case, June 26) and $1.10. CSXI calculates the percent difference between the DOE "Retail Diesel Fuel Price Index" and $1.10, multiplies the figure by 10 percent and then again by 100. On June 30, the DOE reported a diesel retail price of $2.87 per gallon.

If the U.S. National Average Fuel Index equals or exceeds $2.79 per gallon, CSXI increases its fuel surcharge 0.5 percent for every four-cent increase in fuel price.

The 21 percent surcharge applies to CSXI ramp-to-ramp, ramp-to-door, door-to-ramp and door-to-door rates. The drayage-only fuel surcharge for July will be 27 percent.

Visit the CSX for additional information at:
www.csx.com

Union Pacific to Implement Covered Hopper Cleaning Web Option

To compliment the Gondola Cleaning Web Option implemented in June, the Union Pacific is rolling out web-based capabilities to ensure covered hopper customers have the chance to load a car suitable for use. Effective July 1, 2006, the UP is implementing a new policy for covered hopper shippers and receivers.

For shippers, the UP is offering a web option if you receive a "dirty" car. This option will provide the ability to report a car's "dirty" status immediately to UP. The UP will identify the last party unloading the car and send a cleaning charge of $600 to that unloader.

Once you take this action, you are free to clean the car and load it immediately. Cleaning and disposal costs are the customer's responsibility and the customer still retains the ability to reject a car. If a car is rejected, UP will replace it as soon as possible based on equipment availability.

For receivers, it is your responsibility to fully unload each car. Releasing an empty car identifies it as clean and ready to be used by the next shipper. The UP will investigate reports of unclean cars and assess the standard $600 car-cleaning charge where warranted.

The online system is available for immediate use. The capabilities will allow shippers to report cars that are not suitable for loading and for receivers to view those same cars. You'll find these tools inside an application called "Reporting a Dirty Car".

Follow the link below for additional assistance with the UP web option:
https://c02.my.uprr.com/myu/secure/index.jas

AAR Updates

Effective July 1, car repair facility labor rate will increase to $83.98

On June 15, 2006 the AAR published Circular C-10329 regarding an increase in the Car Repair Facility Labor Rate. Effective July 1, 2006, the Car Repair Labor Rate will be $84.03, up five cents from the April 1 rate of $83.98.

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

All Rail Shipping Rates Have Declined, Says GAO Report, Notes Coal Rates Down 35 percent

In a newly issued report, the Government Accounting Office confirmed that rail shipping rates have not increased over the past 20 years, and have actually declined across the board.

"Rail shipping rates have not increased over the past 20 years."

Testifying before a congressional committee, the GAO determined that from 1985 to 2004 "all rate changes were below the rate of inflation and thus all rates have declined in real terms," noting that coal shippers got the best deal of all, with their rates declining a whopping 35 percent.

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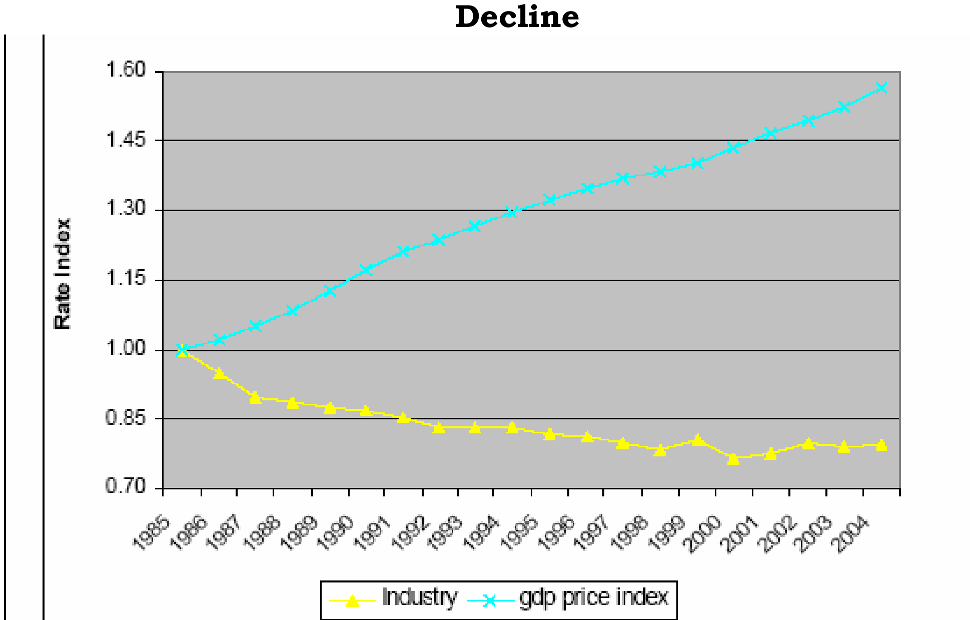
Rail Industry Rates Decline



Source: GAO analysis of STB data

"I don't know of many other industries charging less for their services in 2006 than they did in 1985," said Edward R. Hamberger, President and CEO of the Association of American Railroads.

Learn more at:
www.aar.org

Railroad Traffic

Sharp gains reported in Intermodal and carload freight

U.S. railroads reported sharp gains in both intermodal and carload freight during the week ended June 10 in comparison with the same week last year, the Association of American Railroads (AAR) said.

Intermodal volume gained 9.6 percent from last year, totaling 246,866 trailers or containers. Container volume grew by 11.8 percent while trailer volume was up 2.8 percent while carload freight totaled 350,274 cars, up 5.5 percent from a year earlier, with volume up 6.6 percent in the West and 4.0 percent in the East. Total freight volume for the week was estimated at 34.4 billion ton-miles, up 6.5 percent from last year.

Metals, crushed stone, sand and gravel, coal and grain up; forest products, lumber and metallic ores down

Ten of 19 individual carload commodity groups were up from last year, with metals up 20.6 percent; crushed stone, sand and gravel up 12.2 percent, coal up 9.7 percent and grain up 9.8 percent. Loadings of primary forest products were down 13.5 percent; lumber was off 10.3 percent; and metallic ores declined 12.0 percent.

Cumulative volume for the first 23 weeks of 2006 totaled 7,758,418 carloads, up 1.3 percent from 2005; 5,297,124 trailers or containers, up 6.4 percent; and total volume of an estimated 765.4 billion ton-miles, up 2.4 percent from last year.

Railroads reporting to AAR account for 87 percent of U.S. carload freight and 96 percent of rail intermodal volume. When the U.S. operations of Canadian railroads are included, the figures increase to 96 percent and 100 percent. The Canadian railroads reporting to the AAR account for 91 percent of Canadian rail traffic. Railroads provide more than 40 percent of U.S. intercity freight transportation, more than any other mode, and rail traffic figures are regarded as an important economic indicator.

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

Industrial Inside

U.S. Steel Prices Once Again Outstrip the Rest of the Globe

Tight raw material availability has steel prices high around the globe, but the United States continues to be above world norms. Relief is expected late this year, but there is significant risk as to the timing.

Steel prices are high globally and, once again, the United States is well above world averages. Prices have increased significantly since summer 2005, but are still below the peak attained in September 2004. Prices will stay elevated through the third quarter of 2006, with some increases still to come. Relief is expected for late this year and across

2007, although there is a very realistic scenario under which prices would not decline noticeably until late 2007. Even under this scenario, the upside is limited.

Tight raw material availability has steel prices high around the globe

The American Iron and Steel Institute (AISI) reported in June that nationally, for the month of April 2006, U.S. steel mills shipped 9,159,000 net tons, a 7.2 percent increase from the 8,545,000 net tons shipped in April 2005, and a 6.8 percent decrease from the 9,830,000 net tons shipped in the previous month, March 2006.

A year-to-year comparison of year-to-date shipments shows the following changes within major market classifications: service centers and distributors, down 3.7 percent; automotive, up 17.3 percent; construction and contractors' products, up 15.2 percent; oil and gas, up 9.5 percent; machinery, industrial equipment and tools, up 15.9 percent; appliances, utensils and cutlery, down 6.6 percent; containers, packaging and shipping materials, down 3.3 percent; and electrical equipment, up 13.9 percent.

April 2006 steel shipments increased 7.2 percent over April 2005

Steel prices fluctuations are fairly common within the industry. In September 2004 the prices hit their peak and then retreated modestly. Steel prices started to decline in the fourth quarter of 2004 and continued to drop for the next 12 months. Hot-rolled sheet bottomed out in August 2005 at $435/st, a drop of $319. This decline was actually a bit overdone, so the price rebounded to $500/st the next month and $535/st by October 2005. Global prices also declined across 2005, but at a slower rate. By August, the U.S. premium was down to about $40/mt. But world prices did not bounce back in September and October, again creating a large disparity.

As the market moves through 2006, a premium persists in the United States. Steel prices are rising in international markets and they are also rising in the United States. Hot-rolled sheet was up to $565/st in May and there are expectations of another $20-40 in increases over the summer. Chinese, Latin American, and European prices have all increased $75-100 per ton since last winter, and show upward momentum. The international increases have not closed the gap, but it has at least narrowed a little.

Steel prices are rising in international markets

World steel prices are expected to decline, although the timing is hard to pin down. The global price pressure comes from rising demand clashing with a relatively fixed supply of raw materials. World steel consumption grew about 9% in both 2003 and 2004, and another 4% in 2005 but the supply of raw materials for making steel has not kept pace. Yet, the high prices and booming demand for ore has encouraged massive investment in the expansion of iron ore mines. The added supply will eventually bring lower steel costs. But when?

World steel consumption grew about 9% in both 2003 and 2004, and another 4% in 2005

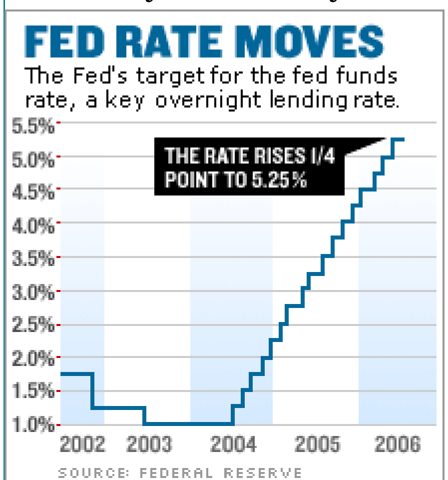
Global Insight's forecast assumes that increased ore supply starts to reach the market in early 2007. Normal inventory replenishment brings lower prices for the fourth quarter of 2006, then higher ore availability and ore costs allow prices to continue declining at a measured pace through 2007. If the increase in mine output is delayed, however, then prices will not decline. Thus, there is significant risk that global prices will not fall, and might even climb a bit from current levels. But ore supply will almost certainly be rising by 2008, so it is hard to find a scenario where the price decline would be delayed past then.

Learn more at:
http://www.globalinsight.com/Perspective/PerspectiveDetail6105.htm
http://www.steel.org/AM/Template.cfm?Section=2006&CONTENTID=15556&TEMPLATE=/CM/HTMLDisplay.cfm

Financial Focus

Federal fund raised another quarter point to 5.25 percent

During their June meeting, the Federal Reserve raised the Federal Funds to 5.25 percent, continuing its quarter-percentage point hike making the 17th straight rate increase and its highest rate since January 2001. Policy-makers said future moves would depend on economic numbers. “The extent and timing of any additional firming that may be needed to address these [inflation] risks will depend on the evolution of the outlook for both inflation and economic growth, as implied by incoming information," the central bank said in a statement continuing on to say "some inflation risks remain."



The statement shows that the Fed under new chairman Ben Bernanke is focused on fighting inflation, but not at all costs, according to Michael Cheah, portfolio manager at AIG SunAmerica Asset Management. "They clearly showed they are cognizant of the fact that growth is moderating. They're very clearly saying that nothing is set and that future moves depend on the numbers," he said, referring to additional rate hikes.

For consumers, the fed funds rate affects rates on a variety of loans, including credit cards and corporate loans

Keith Stock, president of MasterCard Advisors, the consulting arm of MasterCard International said "We're definitely moving down the path of additional hikes.” The economy continues to show strength and the Fed expressed concern about rising energy and wage costs in its statement. "If the inflation outlook doesn't remain contained, the Fed could go up to 5.5 percent. But between now and the next meeting, [the economic numbers] could also cause them to pause," he said.

So what influences inflation?

Some economists say rising energy prices are bleeding through to affect the broader economy. Others point to the rise in housing prices during the recent real estate boom. Some even say that due to a quirk in how the government measures housing prices, a weaker real estate market can actually make inflation seem higher. Others worry that old standards such as a falling dollar or rising wages in a tight labor market could become problems.

Another rate hike in August is widely anticipated

The one thing they agree on is that the Fed's main policy tool - raising rates - won't do much to curb any of these causes, especially in the short term.

A time of rising inflation readings amid signs of a cooling economy is, "the trickiest time to figure out what's right for monetary policy," said Bernard Baumohl, executive director of the N.J. research firm, The Economic Outlook Group.

Another rate hike in August is widely anticipated, but some market watchers said the Fed's statement suggests an end to its now two-year old rate-hiking campaign may be in sight. We'll continue to watch the factors that influence inflation as we wait for the Federal Reserve banks next meeting in August.

Learn more at:
http://money.cnn.com/2006/06/29/news/economy/fed_rates/index.htm
http://money.cnn.com/2006/06/21/news/economy/inflation_causes/index.htm

The Edge

On April 27, 2005 Senate bill S919 was introduced and referred to the Committee on Commerce, Science and Transportation for their review and consideration. Titled the Railroad Competition Act of 2005 the gist of S919 is, "to Amend Title 49, United States Code, to enhance competition among and between rail carriers in order to ensure efficient rail service and reasonable rail rates, and for other purposes."

S919 addresses broad issues of clarifying Title 49 rail transportation policy with primary objectives of promoting effective competition among rail carriers at origins and destinations, maintaining reasonable rates in the absence of effective competition and maintaining consistent and efficient rail transportation service for shippers, including the timely provision of rail cars requested by shippers.

In appears that partially in response to S919, on June 21, 2006 the United States Government Accountability Office ("GAO") testified before the Subcommittee on Surface Transportation and Merchant Marine Senate Committee on Commerce, Science, and Transportation, U.S. Senate on, "Freight Railroads, Preliminary Observations on Rates, Competition, and Capacity Issues."

A general summary of the GAO report is that the financial health of the railroad industry has improved since the passage of the Staggers Rail Act and that, taking inflation into consideration, most rates have declined since 1985 thru 2000 and increased slightly from 2001 through 2004. Concerns about competition and captivity in the industry remain because traffic is concentrated in fewer railroads, and although rates have declined for most shippers since the enactment of the Staggers Rail Act, rates have not declined uniformly and some shippers are paying significantly higher rates than others.

It appears that a delicate balancing act is ongoing as it has been for the past couple of decades. Rail rates in real terms have declined, so have many other prices, take hard red winter wheat in the northern plains where the cash price in 2006 is about the same as the cash price in 1927. I didn't inflation adjust the numbers but that's a real term decline by anybody's account.

Rail car-loadings set new records almost weekly and most industries appear to be doing well so there's a continue struggle to see where causes and effects of rail transportation rates, competition and barriers apply and how they effect growth and prosperity of individual geographic regions and industries.

I believe in competition and competitive environments. I'm just not sure outside of the political positioning (on both sides of the argument) if I can see it clearly. The last thing any of us want, whether you're a shipper or a railroad, is watch "Atlas Shrug".

We look forward to earning your business!