Touchbase JULY 2007

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The BNSF releases its 2007 Independence Day Direct Operating Plan

Independence Day is a U.S. holiday, as outlined in the BNSF Intermodal Rules and Policies Guide and the BNSF Equipment Interchange Agreement

Railroad Updates

The BNSF released its 2007 Independence Day direct operating plan on June 28th. The Railroad announces that this year, the Independence Day holiday will be observed on Wednesday, July 4 impacting its services in the following ways:

Train Service:
Intermodal trains as identified on the attached Independence Day schedules will continue to operate over the holiday weekend. Look for the words "Holiday Impact" to see the effects of the holiday on BNSF train service. "Holiday Impact" indicates that a particular cut-off will not be available for the day indicated. ***Please note the anticipated impact to the schedules has been identified; however, additional adjustments to the attached plan may occur depending on volume levels.***

Interline Traffic:
Delays may occur on interline traffic if connecting carriers have reduced operations for the holiday.

Intermodal Facilities
Please visit the following link to view the matrix for all hub hours during the holiday period.
http://newdomino.bnsf.com/website/updates.nsf/market?open&market=consumer

Customer Support and Shipment Tracing:
A limited Customer Support staff will be available to take calls on Wednesday, July 4. For assistance, please call 1-888-428-2673.

For interactive tracing 365 days per year, you may call 1-888-428-2673, or try BNSF's Web Tracing by going to **www.bnsf.com**, logging in with your user name and password, and selecting the "Trace" section.

Storage and Detention
The Storage and Detention Department will maintain limited staffing for 24 hours on Wednesday, July 4, and will be staffed as usual during the week.

Storage free time is the amount of time allowed for a vehicle to be left at a BNSF facility once notification has been given that the vehicle is available for pickup or delivery. If the Independence Day holiday falls during the vehicle free time, the holiday will not be included in the calculation of storage charges. If notification is made on Independence Day, the day of notification will roll to Thursday, July 5.

Detention free time is the amount of time allowed for a vehicle to remain at origin or destination for loading or unloading. The Independence Day holiday is not considered to be a free day once the vehicle has been removed from a BNSF facility.

Please arrange for pickup of loads at the ramps as soon as possible to avoid congestion and additional charges. If you have questions regarding storage, call our toll-free number, 1-888-428-2673.

CN Introduces "Weekend Loading Advantage Program"

CN introduces a Weekend Loading Advantage Program for western Canadian grain exports

Effective June 1st, 2007, The Canadian National introduced a new initiative to facilitate weekend loading operations. The new program is available on Western Canadian grain shipped from grain elevators to the ports of Vancouver, Prince Rupert and Thunder Bay.

The CN reports that weekend loading enables the CN to balance demand for railway assets and resources more evenly by day of week as well as providing more consistent and reliable service to each of its customers. The CN says they are committed to creating a reliable weekend loading plan and to communicating and executing it reliably.

The new program offers incentives to balance loadings through the week and features reciprocity: The CN will pay an additional credit if they spot cars late to the weekend plan without prior notification; however, the customer will forfeit the incentive if the customer is late in loading and billing its cars.

Weekend Loading Advantage Incentive

Weekend loading enables the CN to balance demand for railway assets and resources more evenly by day of week as well as providing more consistent and reliable service

The Weekend Loading Advantage Program is intended to help Western Canadian grain elevator operators to better plan their weekend loading operations, with incentives to load and ship on time. CN will notify the customer of the Planned Weekend Loading Day, either a Saturday or Sunday, each Thursday for the upcoming weekend.

Following are weekend loading incentives:

$2,000 per block of 100 cars or more
$1,500 per block of 50 cars of more
$750 per shipment of less than 50 cars

Contact the CN for additional information or read the entire article: **http://www.cn.ca/productsservices/grain/canada/resource_centre/weekend_loading/en_weekend_loading_advantage_program.shtml**

AAR Updates

On June 6, 2007 the Association of American Railroads published Circular C-10533 concerning Maintenance Advisory MA-99 which was issued May 24, 2007 via Circular Letter c-10527. The Maintenance Advisory covered 4,081 plastic pellet covered hopper cars manufactured by Trinity Industries in 2000-2001 with hand brakes mounted in a location under the end slope sheet such that accessibility to operate the hand brake is less than ideal.

AAR published Maintenance Advisory concerning hand brake location on 4,081 plastic pellet cars

The Maintenance Advisory announced that the hand brake location is pre-1976 and was initially a Pullman Standard Company design.

TrinityRail acquired Pullman and continued to apply hand brakes in the same location, however in 2000 and 2001 the location of the hand brake in relation to the end crossover handhold was altered on some cars.

The circular announces that it has been determined that, in order to eliminate the awkward position when operating the hand brake, the crossover handhold should be relocated inboard 11 1/2" inches thus allowing the operator to lean into the empty area created.

Car owners are to develop a plan to modify their affected cars in a timely fashion and then contact handling carriers and direct selected cars to shop when empty in an orderly fashion

TrinityRail developed a modification procedure for applying two new brackets to the ladder stiles to reposition the crossover handhold. In order to minimize potential disruption of the plastic pellet covered hopper car fleet (the number of affected cars for the various owners ranged from 5 to 1597 cars) it has been decided to <u>revise the requirements of the initial Maintenance Advisory as follows:</u>

Under the provisions of AAR Interchange Rule 125, this Maintenance Advisory is assigned **Severity Code 06-AAR defined**:

Car owners are to develop a plan to modify their affected cars in a timely fashion and then contact handling carriers and direct selected cars to shop when empty in an orderly fashion. (One car owner is already making arrangements to perform the relatively simple modification work with mobile repair trucks at shipper or consignee sites.)

Visit the AAR for more information at:
http://www.aar.org

Railroad Traffic

U.S. railroads haven't quite begun the traffic rebound they're projecting for the year's second half, but they did have one of their best weeks so far in '07.

AAR weekly data shows that U.S. roads move most carloads, second-most intermodal loads in 2007

During the year's 24th week ending June 16, the roads originated 339,670 carloads, the highest weekly total in 2007, yet still down 1.8 percent compared with the same 2006 week, according to Association of American Railroads data. Intermodal volume totaling 240,002 units — 2007's second-highest weekly total — dropped 2.3 percent year over year.

"Weak freight demand and excess truckload supply is driving softness in trailers on flat cars [and] port volume growth has been slowing a bit, limiting container-on-flat-car gains," said Bank of America Securities analyst Scott Flower in the firm's weekly traffic report. "With energy prices elevated and retailers seeing lukewarm demand, truckload and intermodal demand trends may not improve much in the near term."

"Weak freight demand and excess truckload supply is driving softness in trailers on flat cars [and] port volume growth has been slowing a bit,

During 2007's first 24 weeks, U.S. railroads originated 7.8 million carloads, down 4.3 percent, and 5.5 million trailers and containers, down 1.3 percent compared with the same 2006 period. Estimated volume totaled 789.4 billion ton-miles, representing a 3 percent year-limiting container-on-flat-car gains"

Estimated volume totaled 789.4 billion ton-miles, representing a 3 percent year-over-year decline

Portland Cement Association expects single-family building slump to continue into 2008

over-year decline.

Meanwhile, Canadian railroads might have already turned the proverbial corner. During the week ending June 16, the roads' carloads totaling 81,230 units increased 3.7 percent and intermodal volume totaling 47,441 units rose 1.8 percent compared with the same 2006 week. Through 24 weeks, the railroads' carloads totaling 1.9 million units decreased 0.8 percent, but intermodal loads totaling 1.1 million units rose 1.3 percent.

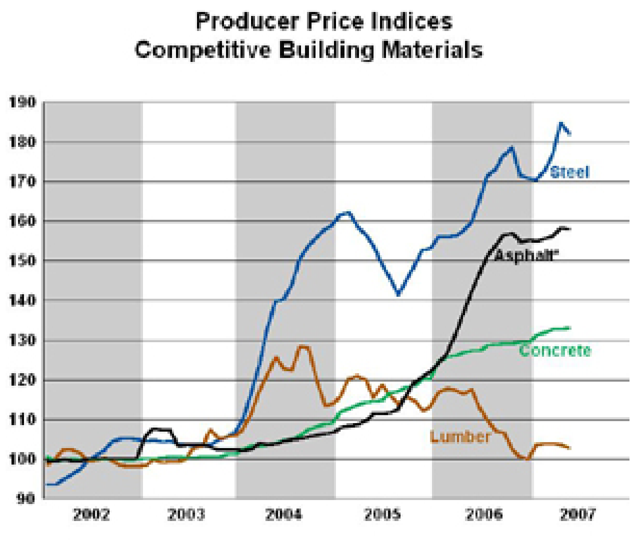
On a combined cumulative-volume basis through 24 weeks, reporting U.S. and Canadian railroads originated 9.6 million carloads, down 3.6 percent, and 6.6 million trailers and containers, down 0.9 percent compared with last year.

In Mexico, Kansas City Southern de México S.A. de C.V. posted mixed traffic results last week. During the period ending June 16, the railroad's carloads carried totaling 10,258 units fell 14.1 percent but intermodal volume totaling 4,875 units increased 1.3 percent compared with the same 2006 week. Through 24 weeks, the road carried a total of 260,228 cars, down 5 percent, and 103,563 trailers and containers, up 10.8 percent year over year.

Read more at:
http://www.progressiverailroading.com/prdailynews/news.asp?id=10933

Industrial Inside

Concrete prices in May remained nearly flat for the second straight month with a modest 0.1 percent gain, according to the Bureau of Labor Statistics' Producer Price Index while steel and asphalt prices declined, 1.3 percent and 0.2 percent, respectively, but remain at high levels with steel prices increasing 13.9 percent during the past year. Asphalt prices rose 11.2 percent in the last 12 months while lumber prices continued to decline with a 12.5 percent negative change from 2006.



According to the spring PCA Cement and Construction Forecast, the relative price improvements of concrete compared to other materials that materialized during the fourth quarter of 2006 and has continued through recent data collections, will increase national cement intensity in 2007. Cement intensity refers to the tons of cement per dollar of construction activity.

Despite large cutbacks in single-family building activity and improvements in home affordability, the single-family market has not yet stabilized, according to the most recent report from the Portland Cement Association (PCA). The magnitude of the single-family construction downturn will play a significant role in determining the level of cement consumption this year and next.

PCA's spring forecast had anticipated a 20.5 percent decline from 2006 levels resulting in a 4.5 percent drag

PCA Chief Economist Ed Sullivan reports that current housing market conditions suggest that the decline in residential construction will be deeper than expected, leading to a decline in cement consumption that could reach 7.5 to 8 million tons or roughly a 30 percent decline. This translates into a 6.5 percent drag on total U.S. 2007 cement consumption compared to 2006 levels.

PCA's spring forecast had anticipated a 20.5 percent decline from 2006 levels resulting in a 4.5 percent drag. Single-family housing accounted for nearly 25 percent of U.S. cement consumption in 2005.

"Even though single-family housing starts are nearly 30 percent lower than last year, the slow sales have diminished the builder's ability to improve the inventory"

High inventory levels are playing an important role in the slow recovery of the single-family housing market. Sullivan estimates that the current inventory of 4.1 million homes represents an eight-month supply, compared to the desired five-month supply. Because home sales are diminishing, the correction process most likely will continue until the fourth quarter of 2008. Sullivan estimates that the current inventory of 4.1 million homes represents an eight-month supply, compared to the desired five-month supply. Because home sales are diminishing, the correction process most likely will continue until the fourth quarter of 2008.

"Even though single-family housing starts are nearly 30 percent lower than last year, the slow sales have diminished the builder's ability to improve the inventory," Sullivan says. "In addition, an expected doubling of the amount of homes entering foreclosure will put additional pressure on the inventory situation."

Learn more at:
http://www.cement.org/newsroom/May061907.asp and
http://www.cement.org/exec/06-25-07.htm#2

Financial Focus

Investor hopes that the weakening housing market could trigger rate cuts in coming months have faded

The Federal Reserve left a key interest rate unchanged during its meeting on June 27-28, expressing new optimism on economic growth and lower inflation.

Fed Chairman Ben Bernanke and his colleagues voted unanimously to

as the economy has showed signs of a rebound

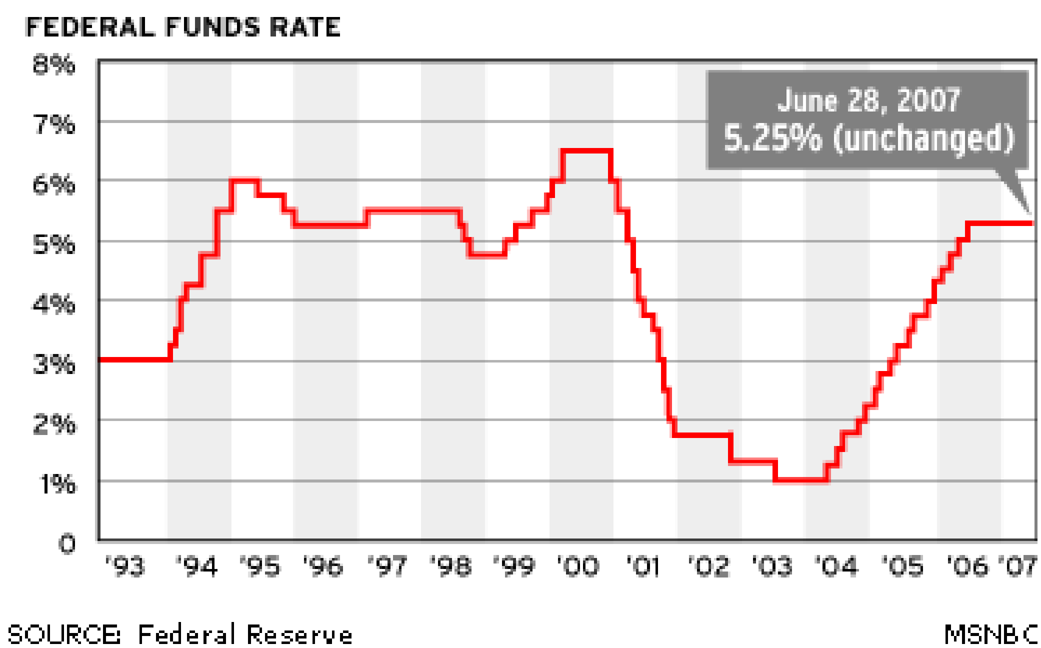
keep the federal funds rate, the interest that banks charge each other, at 5.25 percent, where it has been for the past year.
Analysts believe that Fed officials could remain on hold through the rest of this year and well into 2008. Investor hopes that the weakening housing market could trigger rate cuts in coming months have faded as the economy has showed signs of a rebound.

Banks' prime lending rate to remain unchanged at 8.25 percent

The Fed decision means that banks' prime lending rate, the benchmark for millions of consumer and business loans, will remain unchanged at 8.25 percent, where it has been for the past year.

In a brief statement explaining its actions, the Fed continued to say that its greatest concern was that the risk of inflation will not moderate as expected.

But the Fed dropped a description in previous statements that inflation was "elevated." Instead, it expressed some optimism about recent developments, saying "Readings on core inflation have improved modestly in recent months."



Feds say "a sustained moderation in inflation pressures has yet to be convincingly demonstrated"

The statement said that "a sustained moderation in inflation pressures has yet to be convincingly demonstrated."

Wall Street initially rallied on the Fed's more favorable comments on inflation. David Jones, chief economist at DMJ Advisors, said the Fed's comments signaled that the central bank is prepared to leave rates alone for the rest of this year.

"The tone of this statement implies to me that they see no reason to change policy any time soon," Jones said. The Fed sounded a positive note on economic growth, as well, saying, "The economy seems likely to continue to expand at a moderate pace over coming quarters."

The government reported earlier Thursday that the economy, as measured by the gross domestic product, slowed to an annual rate of just 0.7 percent in the first three months of the year. While that was slightly higher than the 0.6 percent GDP rate estimated a month ago, it still marked the weakest growth rate in more than four years.

However, economists believe the economy staged a significant rebound in the April-June quarter which is just ending. They are forecasting that growth could come in at 3.5 percent or better for this period. That would provide reassurance to the Fed that the troubles in housing were not threatening to pull the country into an outright recession.

In its statement, the Fed said that economic growth over the first half of this year appears to have been moderate "despite the ongoing adjustment in the housing sector."

As signs of a stronger economy have increased, the possibility of a Fed rate cut in coming months has faded. Many analysts believe the Fed could remain on hold until this time next year unless the housing problems worsen to such an extent that the central bank feels the need to cut rates in the fall.
The central bank raised rates from a 46-year low of 1 percent to the current 5.25 percent over a two-year period with the 17th rate hike occurring on June 29, 2006, the longest stretch of Fed rate hikes on record.

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The Fed's goal has been to achieve a soft landing in which economic growth slows enough to dampen inflation pressures but no so much that the country is pushed into a recession.

Learn more at:
http://www.msnbc.msn.com/id/19485939/

The Edge

"Lead Up – Lag Down"

In early 2000 a rail car builder and operating Lessor told me his motto, "Lead Up, Lag Down", was key to his strategy. It appears that the railroads also used this strategy effectively and are indeed lagging down – or maybe just going sideways.

Railroads in general have slowed down on the double digit rate increases for the near term for commodities that have been affected by a downturn in the economy. In fact, they are committing to holding some rate differentials for certain construction materials related commodities at current levels thru this time next year. Not necessarily lagging down but it may be as good as it gets for the near term.

If you find yourself caught between the economic slowdown and rate increases that put you out of the market schedule, a visit with your marketing or sales representative at the railroad may be a necessity. They need to hear from you to make decisions that affect your business as well as their own.

Also, keep in mind that outside of Thanksgiving and Christmas Holidays, the July 4th of July week has the single biggest slowdown in rail originations and deliveries.

We look forward to earning your business!