Tealinc

Touchbase

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In This Issue

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Rail industry responds to proposed Canadian legislation

Railroad & Policy Updates

CANADA: The government has introduced legislation the House of Commons which according to Minister of Transport Marc Garneau is intended to ‘promote a transparent, fair, efficient and safer national freight rail system that will facilitate trade and meet the needs of users and all Canadians.’

The Transportation Modernization Act Bill C-49 was introduced on May 16, following more than a year of consultation. Proposed measures in the rail sector include:

- new reporting requirements covering rates, service and performance;
- a Long-Haul Interswitching mechanism intended to provide captive shippers with options to access a competing railway;
- a definition of 'adequate and suitable' service that confirms railways should provide shippers with the highest level of service that can reasonably be provided in the circumstances;
- the ability for shippers to seek reciprocal financial penalties in service agreements with railways;
- more accessible and timely remedies for shippers on both rates and service;
- amending the Railway Safety Act to mandate the installation of locomotive voice and video recorders.

Canadian Pacific said it was ‘cautiously optimistic’ about the bill. ‘The proposed changes to the Maximum Revenue Entitlement should promote hopper car investments and that is good for the farmer, good for CP and for all Canadian exporters’, said CP President & CEO Keith Creel. ‘The details on long-haul interswitching need further review, however a move to commercial, market-based fundamentals versus the current regulated approach to extended interswitching is a step in the right direction. However, potential access to the Canadian network by US-based railroads via LHI without reciprocity is not good public policy as it could create an uneven playing field and disadvantage Canadian railways vis-a-vis those in the USA’.

Railway Association of Canada President & CEO Michael Bourque said the RAC was ‘very pleased with the provision on locomotive voice and video recorders’, which ‘addresses a key Transportation Safety Board recommendation.’

Forest Products Association of Canada CEO Derek Nighbor welcomed the legislation, saying transportation represents about one third of the total costs of the average forest products company. The FPAC had ‘emphasized the need for more reliable service and competitive rates in rail, marine and trucking’, he said, because most of mills are in rural and northern communities with few transport options.

Learn more at:
http://www.railwaygazette.com/news/policy/single-view/view/rail-industry-responds-to-proposed-canadian-legislation.html

Mechanical Brief with Steve Christian

When it comes to providing railcar maintenance solutions, nothing beats face to face communication

Anyone who knows me is aware that I been reluctant to fully embrace all the technology of the day. You can send contracts, information, photos and written correspondence in fractions of a second. Yet, in my mind, the personal connection component of face-to-face meeting cannot be equaled by any technology. Words have meaning but the meaning varies with the context of the words and the situation the words are spoken in. Being in the presence of the subject of the discussion is also a huge aid to understanding. The old saying "A Picture is Worth a Thousand Words" is very true. I also believe that being in the presence of the actual item of discussion is worth a lot more than words. The following article illustrates to me that old fashioned person to person communication is still the best means of successfully communication.

As with most all maintenance issues, good maintenance practices, early detection and swift remedy of any issues was required to get the cars back into operation

We own a group of open top cars that have manual rapid discharge outlets. If the doors are properly maintained and adjusted, the doors will open and close easily. We have a number of these cars leased out to a handful of lessee's around the country and all in all, they have been great cars. One customer recently had issues with the doors effectively closing and the operating party voiced a complaint. These cars have door assist spring assemblies that support the weight of the door such that as the load leaves the car the springs rebound back towards the closed position. They also allow the operator to reposition the door and the hold the position the door is moved to. When the door spring and associated parts are in good operating condition, they work very well. When the doors don't rebound properly after unloading the doors, they will become increasingly harder to close. As with most all maintenance issues, good maintenance practices, early detection and swift remedy of any issues was required to get the cars back into operation. Replacement of the parts brings the doors back to the original and easy operation.

Tealinc goal is always to assist our customer with the highest level of satisfaction as possible

In this particular case, we had multiple parties interested in proper door operations including the maintenance supplier, the serving shortline railroad, the loading company and the unloading company. As a customer service oriented company, Tealinc goal is always to assist our customer with the highest level of satisfaction as possible and in this situation, the repair agent wasn't as knowledgeable on the repair needs as I was so I was happy to provide guidance. Obviously, participation and communication with and from our customers is key to any resolution and our customer worked well with us to communicate the issues and explain how they open and close the doors. The solution to the situation seemed pretty straightforward to me and quite easy to accomplish. Since I had a health issue that kept me close to home for a couple of months and the cars were about 1,500 miles away, I hoped to get everything handled without traveling to the site. I sent out repair procedures and parts identification information and hoped that we could talk and e-mail our way through the issues to get the doors in proper operation.

Alas, I was wrong. For whatever reason or reasons, it just didn't work. As the result, once my health allowed, I organized a meeting of all the stake holders at the site. We arranged a morning meeting for the maintenance supplier, the serving railroad, the loading company (lessee of the cars) and the unloading company at the local repair track. We had one sample car worked completely in advance and ready to return to operation. We also had a handful of other cars that were reported as being “bad actors” on the repair track that had not been worked. We operated problem cars and the repaired car to demonstrate the stark difference in how the cars operated at their worst and how they operated at their best. All participants saw how different they were.

The decision maker had made intelligent, informed decisions and a plan was put in motion. With all the communication modes available to us in 2017, the face to face meeting with live door operation eliminated all the confusion and got everything on track.

When the meeting broke up, all of the parties had a good grasp on the issues and solutions. The decision maker had made intelligent, informed decisions and a plan was put in motion. With all the communication modes available to us in 2017, the face to face meeting with live door operation eliminated all the confusion and got everything on track.

While I am slowly moving into the information age, I still remember there are many other tools in the communication toolbox. 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 in his Colorado office at (719) 358-9212 or via email at ***steve@tealinc.com****.*

Railroad Traffic

The Association of American Railroads (AAR) reported [June 7, 2017] U.S. rail traffic for the week ending June 3, 2017, as well as volume for May 2017.

May 2017 carload traffic up 8.4 percent

U.S. railroads originated 1,286,075 carloads in May 2017, up 8.4 percent, or 99,290 carloads, over May 2016. U.S. railroads also originated 1,339,417 containers and trailers in May 2017, up 4.6 percent, or 58,665 units, from the same month last year. Combined U.S. carload and intermodal originations in May 2017 were 2,625,492, up 6.4 percent or 157,955 carloads and intermodal units over May 2016.

"All things considered, May was a good month for rail traffic"

"All things considered, May was a good month for rail traffic," said AAR Senior Vice President John T. Gray. "Thirteen of the 20 commodity categories we track had higher carloads in May 2017 than in May 2016, including the four biggest categories — coal, chemicals, crushed stone and sand, and grain. Excluding coal, carloads in May were up 4.1%, their biggest monthly increase in more than two years, and May was the best intermodal month of the year."

"Thirteen of the 20 commodity categories we track had higher carloads

In May 2017, 11 of the 20 carload commodity categories tracked by the AAR each month saw carload gains compared with May 2016. These included: coal, up 19.6 percent or 64,059 carloads; grain, up 24.5 percent or 22,963 carloads; and crushed stone, sand and gravel, up 15.3 percent or 17,416 carloads. Commodities that saw declines in May 2017 from May 2016 included: petroleum and petroleum products, down 16.5 percent or 9,365 carloads; primary forest products, down 12.1 percent or 742 carloads; and motor vehicles and parts, down 3.8 percent or 3,419 carload.

in May 2017 than in May 2016, including the four biggest categories — coal, chemicals, crushed stone and sand, and grain."

Excluding coal, carloads were up 4.1 percent, or 35,231 carloads, in May 2017 over May 2016.

Total U.S. carload traffic for the first five months of 2017 was 5,633,477 carloads, up 6.8 percent, or 358,904 carloads, from the same period last year; and 5,779,098 intermodal units, up 2.3 percent, or 130,090 containers and trailers, from last year.

Visit the AAR at:
https://www.aar.org/newsandevents/Press-Releases/Pages/2017-06-03-railtraffic.aspx

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Industrial Inside

In the automobile market, it's not just the subprime loans but falling used-car values that have one widely followed analyst worried.

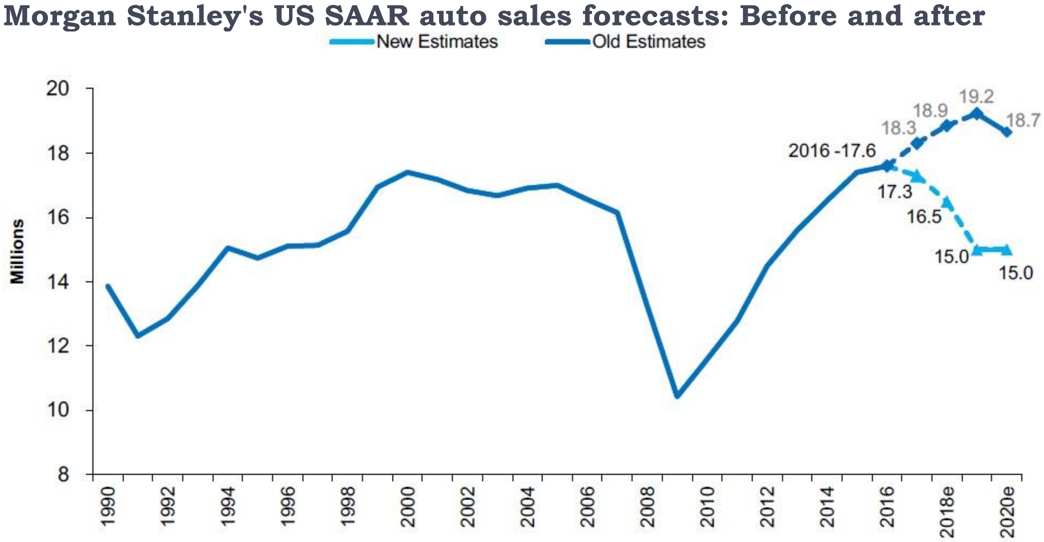
Auto industry may face an unprecedented buyers strike

"A stretched auto consumer, falling used prices, and technological obsolescence of current cars are ingredients for an unprecedented buyer's strike," Morgan Stanley Equity Analyst Adam Jonas said in a note [June 8, 2017].

As a result, he is cutting 1 to 4 million units from his U.S. auto-sales forecast for each year through 2020.

U.S. auto sales have steadily climbed since the end of the Great Recession to hit a record in 2016 of 17.55 million on a seasonally adjusted annualized rate, or SAAR. The pace has slowed this year, and a report [the week of June 12, 2017] showed SAAR auto sales in May held steady from the prior month at 16.8 million to 16.9 million vehicles.

Morgan Stanley's US SAAR auto sales forecasts: Before and after



Source: Autodata, Morgan Stanley Research

U.S. consumers depend heavily on used-car values in order to buy new ones. Jonas pointed out that about 9 out of 10 new car purchases in the U.S. involve a trade-in or off-lease vehicle.

"We see scope for an unprecedented level of pressure on the used car market that could significantly exceed what was experienced in the 2008 market shock" when used-car values fell about 15 percent over 9 months

"We see scope for an unprecedented level of pressure on the used car market that could significantly exceed what was experienced in the 2008 market shock" when used-car values fell about 15 percent over 9 months, he said in the report.

Over the next four to five years, Jonas expects used-car prices to fall between 25 and 50 percent.

As a result, Jonas cut his auto sales forecast this year to 17.3 million, down from 18.3 million. He also lowered his estimates for 2019 and 2020 down to 15 million each.

Jonas noted a 15 million annual pace of sales is equal to that of 2013 and maintaining that level may need government support with a car purchase incentive program.

A 15 million annual pace of sales is equal to that of 2013 and maintaining that level may need government support with a car purchase incentive program

Other negative signs for auto sales the report listed include:

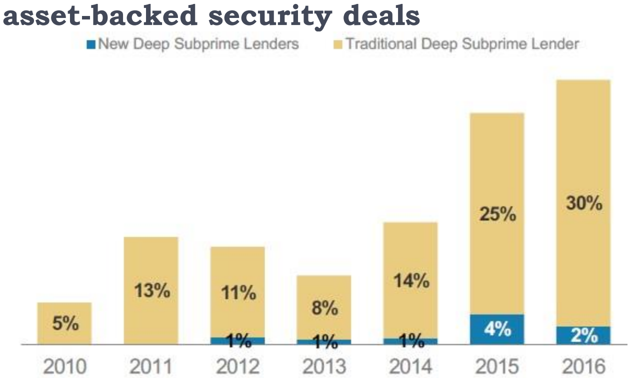
1. New vehicle inventory levels rising — Total U.S. inventory at the end of May neared 4.1 million units, up 9 percent year-on-year and the highest May Jonas has seen on record.

Total car & light truck inventory units (millions)

Source: Autodata, Morgan Stanley Research

2. Record high deep-subprime participation — In 2016, 32 percent of subprime auto asset-backed security deals had a weighted average FICO score less than 550. That's up from 5 percent in 2010, the report said.

Deep subprime (weighted average FICO < 550) share of annual subprime auto asset-backed security deals



Source: Rating agency reports, Bloomberg, Morgan Stanley Research

Other negative signs for auto sales the report listed include:

1. New vehicle inventory levels rising

2. Record high deep-subprime participation

3. Rapid changes in technology

3. Rapid changes in technology — Expectations of a rapid ramp-up in automated driving technology such as Automatic Emergency Braking should change "the desirability, insurability and useful life of the $2 trillion worth of used cars in the U.S."

In the note, Jonas also cut price targets by more than 10 percent for Adient, Ford Motor, Group 1 Automotive and Lear, which he also downgraded to underweight from equal weight.

Read the entire article at:
http://www.cnbc.com/2017/06/08/auto-industry-may-face-an-unprecedented-buyers-strike-morgan-stanley.html

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Fed raises key rates again despite growing inflation worries

Policy makers also issued forecasts showing another three quarter-point rate increases in 2018

The FOMC retained language that it expects to keep raising interest rates at a "gradual" pace if economic data play out in line with forecasts.

Financial Focus

Federal Reserve officials forged ahead with an interest rate increase and additional plans to tighten monetary policy despite growing concerns over weak inflation.

Policy makers agreed to raise their benchmark lending rate for the third time in six months, maintained their outlook for one more hike in 2017, and set out some details for how they intend to shrink their $4.5 trillion balance sheet this year.

"Near-term risks to the economic outlook appear roughly balanced, but the committee is monitoring inflation developments closely," the Federal Open Market Committee said in a statement [June 14, 2017] after a two-day meeting in Washington.

"The committee currently expects to begin implementing a balance sheet normalization program this year, provided that the economy evolves broadly as anticipated."

Policy makers also issued forecasts showing another three quarter-point rate increases in 2018, similar to the previous projections in March. The Fed's actions and words struck a careful balance between showing resolve to continue tightening in response to falling unemployment while acknowledging the persistence of unexpectedly low inflation this year.

"Inflation on a 12-month basis is expected to remain somewhat below 2 percent in the near term but to stabilize around the committee's 2 percent objective over the medium term," the statement said.

The committee had previously described inflation as close to their goal.

Data released earlier [June 14, 2017] showed that, on a year-over-year basis, the core version of consumer price inflation, which strips out food and energy components, slowed for the fourth straight month, to 1.7 percent in May. Following that news, the probability that the June hike would be followed by another increase this year dropped to about 28 percent from 48 percent, according to pricing in Fed funds futures contracts.

In a separate statement on [June 14, 2017], the Fed spelled out the details of its plan to allow the balance sheet to shrink by gradually rolling off a fixed amount of assets on a monthly basis. The initial cap will be set at $10 billion a month: $6 billion from Treasuries and $4 billion from mortgage-backed securities.

The [June 14, 2017] decision brings the Fed's target for the federal funds rate, which covers overnight loans between banks, to a range of 1 percent to 1.25 percent

The caps will increase every three months by $6 billion for Treasuries and $4 billion for MBS until they reach $30 billion and $20 billion, respectively. Officials didn't reveal the exact timing of when the process will begin this year, as well as specifically how large the portfolio might be when finished.

The FOMC retained language that it expects to keep raising interest rates at a "gradual" pace if economic data play out in line with forecasts.
The [June 14, 2017] decision brings the Fed's target for the federal funds rate, which covers overnight loans between banks, to a range of 1 percent to 1.25 percent.

The vote was 8-1, with Minneapolis Fed President Neel Kashkari dissenting from a rate increase for the second time this year, preferring no change.

Quarterly projections for 2018 and 2019 showed Fed policy makers largely maintained their expected path for borrowing costs. The median forecast still has the central bank making three quarter-point increases in 2018; the end-2019 rate is seen at 2.9 percent, a slight change from 3 percent in the March projections.

The Fed in recent weeks wrestled with contradictory signals from unemployment and inflation.

The new forecasts may in part reflect changes in the FOMC since the last meeting, including the departures of Governor Daniel Tarullo and Richmond Fed President Jeffrey Lacker, and the arrival of new Atlanta Fed President Raphael Bostic.

In any event, interest-rate projections for 2018 and 2019 are becoming less reliable guides to future policy amid the likelihood that the Fed's Board of Governors will see a major makeover in the next year.

The Fed has in recent weeks wrestled with contradictory signals from unemployment and inflation. Joblessness in the U.S. dropped to a 16-year low at 4.3 percent in May.

Despite that, the Fed's favorite measure of price pressures, excluding food and energy components, rose just 1.5 percent in the 12 months through April, down from 1.8 percent in February. The Fed's target for inflation is 2 percent.

The recent economic developments prompted FOMC members to drop their median projection for inflation to 1.6 percent in 2017, from 1.9 percent forecast in March. The median forecasts for 2018 and 2019, however, were unchanged at 2 percent.

Joblessness in the U.S. dropped to a 16-year low at 4.3 percent in May.

They also reduced slightly their estimate for the lowest sustainable level of long-run unemployment to 4.6 percent from 4.7 percent. That change, and the reduction in the 2017 inflation forecast, could reduce the urgency policy makers feel to hike rates again in coming months, especially if inflation remains soft.

"Job gains have moderated but have been solid, on average, since the

> **“Job gains have moderated but have been solid, on average, since the beginning of the year, and the unemployment rate has declined”**

beginning of the year, and the unemployment rate has declined,” the FOMC statement said.

Economic-growth projections were little changed, with the median forecast for 2017 moving to 2.2 percent from 2.1 percent.

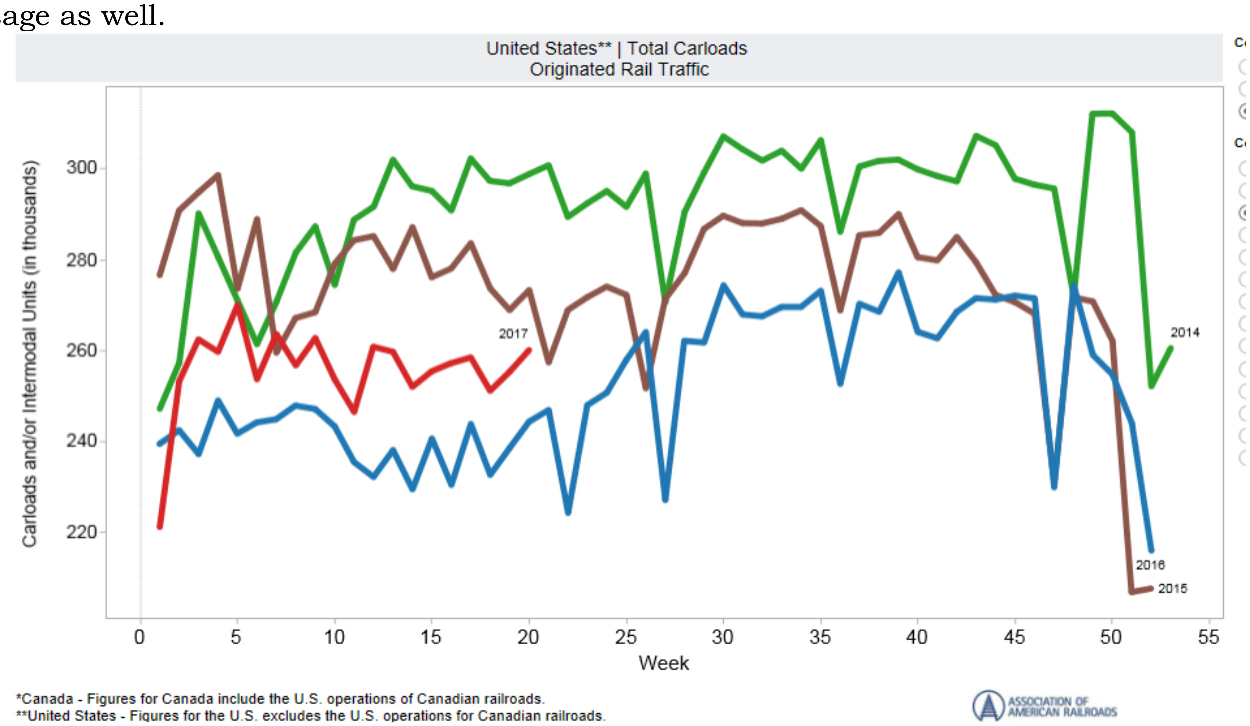
The FOMC next meets in six weeks, on July 25-26. A Bloomberg survey of 43 economists conducted June 5-8 showed a median expectation for rate hikes in June and September, followed by the start of balance-sheet unwinding in the fourth quarter.

Learn more at:
http://www.msn.com/en-us/money/markets/fed-raises-key-rate-again-despite-growing-inflation-worries/ar-BBCG6zw?OCID=ansmsnnews11

The Edge
… with Darell Luther

It’s graduation season for high schools and colleges around the country. Having two teenage daughters’ means I get to attend several graduation ceremonies in our neighborhood (which is anything closer than 120 miles). These “kids” are millennials and from what I read about millennials they are a different breed of cat. I was surprised to find about 90% of the commencement addresses by salutatorian and valedictorian to their pier group was based on working hard, working smart, recognizing and developing realistic dreams and following them to their fruition. Overall very positive messages.

The rail industry, as measured on a fundamental railcar load basis, also has a general positive message as well.

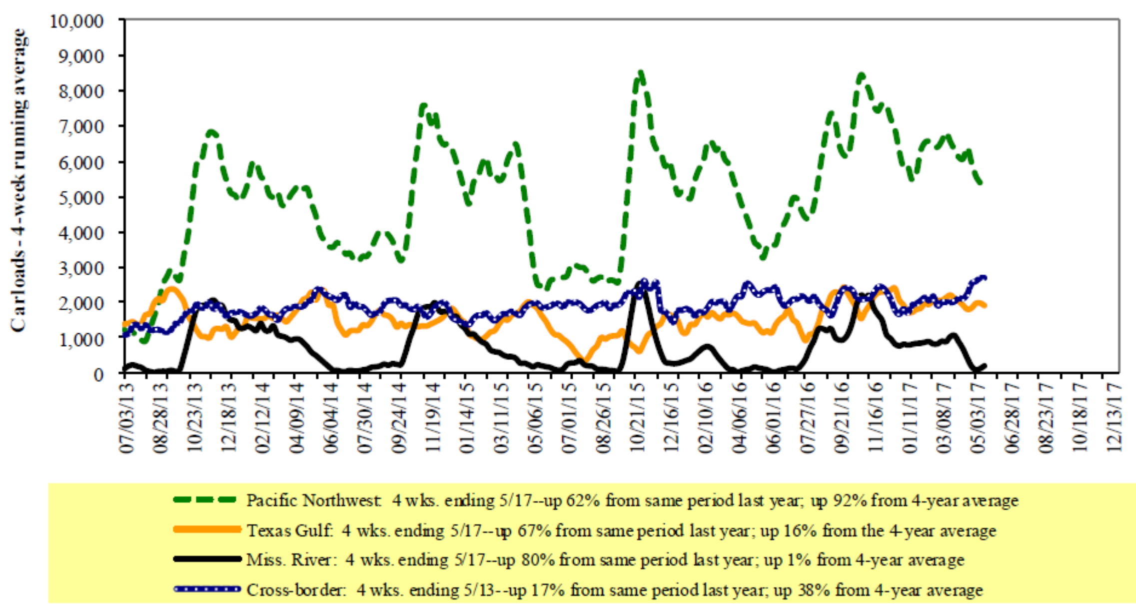


According to the Association of American Railroads (AAR) total weekly carloads of US originated rail traffic continue to make slight gains up 6.4% compared with the same week in 2016. Leading the percentage gains are grain with 23,997 carloads up 24.5%, coal with 78,990 carloads up 18.6%, and nonmetallic minerals with 39,693 carloads up 6.4%. Leading the percentage decreases are petroleum and petroleum products falling to 9,670 weekly carloads for a loss of

16.8%, motor vehicles and parts falling to 17,782 carloads down 6.8% and forest products down to 10,155 carloads or 1.9%.

Grain continues to lead railcar loadings based on a strong export program primarily focused on the Asian continent and Mexico. The Pacific North West for the 4 weeks ending 5/17/17 is up 62% from the same period last year with the gulf, Mississippi and cross-border traffic also showing good growth. All other traffic is relatively flat with some domestic grain use spikes that are more a reaction than true demand.

Figure 2
Rail Deliveries to Port



Source: Transportation & Marketing Programs/AMS/USDA

When broken down by railroad we see the BNSF, KCS and UP all up double digit percentages on grain carloads originated. CSXT and NS are generally flat with CN also showing double digit growth with CP being relatively flat. The mix reflects the export program strength in the PNW, Texas Gulf, Mississippi River and cross-border business into Mexico.

Class I Rail Carrier Grain Car Bulletin (grain carloads originated)

For the week ending:	East		West			U.S. total	Canada	
5/13/2017	CSXT	NS	BNSF	KCS	UP		CN	CP
This week	1,786	2,231	12,337	1,000	5,902	23,256	4,806	4,097
This week last year	1,737	2,788	7,554	959	5,376	18,414	2,605	3,375
2017 YTD	34,971	52,778	216,744	18,568	116,167	439,228	75,522	82,267
2016 YTD	35,501	51,966	193,650	16,863	100,021	398,001	63,767	80,561
2017 YTD as % of 2016 YTD	99	102	112	110	116	110	118	102
Last 4 weeks as % of 2016*	95	103	147	98	113	124	126	120
Last 4 weeks as % of 3-yr avg.**	92	89	136	103	115	118	92	95
Total 2016	95,179	150,920	590,779	45,246	300,836	1,182,960	193,959	234,738

*The past 4 weeks of this year as a percent of the same 4 weeks last year.

**The past 4 weeks as a percent of the same period from the prior 3-year average. YTD = year-to-date.

Source: Association of American Railroads (www.aar.org)

Coal originated railcar loadings are up 18.6% on this week compared to the same time frame last year. The Energy Information Administration (EIA) monthly update shows that net generation in March 2017 was up 4.5%, heating degree days were up 23.8%, natural gas price at the Henry Hub was up 67.9% and coals stocks had decreased by 14.8%. Coupled with coal consumption being 22.7% higher during the same time frame it appears that utilities, over the course of the last few months were replenishing their stockpiles accounting for a good deal of the increase in railcar loadings of coal.

We're not sure how long such significant increases will last. A review of the EIA data shows there are still a few large coal fired generating plants that intend to shut down or convert to natural gas in the next 18 months.

KEY INDICATORS

	March 2017	% Change from March 2016
Total net generation (thousand MWh)	317,934	4.5%
Residential retail price (cents/kwh)	12.9	2.6%
Retail sales (thousand MWh)	287,863	2.1%
Heating degree-days	556	23.8%
Natural gas price, Henry Hub ($/mmBtu)	2.96	67.9%
Coal stocks (thousand tons)	163,900	-14.8%
Coal consumption (thousand tons)	48,915	22.7%
Natural gas consumption (Mcf)	700,918	-9.6%
Nuclear net generation (thousand MWh)	65,093	-1.6%

Coal exports ramped up in fourth quarter 2016 and appear to continue to reflect a stronger demand picture than previously experienced. If exports continue expect some renewed strength in coal railcar loadings as this market slowly claws its way out of the market bottom it has recently experienced.

The AAR reports there are five of the ten commodity groups posting positive gains this past week. On a longer term basis trends remain positive and are reflective of a brighter economic outlook. The AAR reports gains of 6.5% for the past twenty weeks for US originated railcar load traffic.

Tealinc is also beginning to see more life breathe into this industry as we expand our railcar fleet and management services and take on more project work developing loading and unloading sites for expanding and new customers. It's refreshing. If we can be of service give us a call.

We look forward to earning your business!