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Class I's continue to acquire rolling stock, financial services firm says

"…rail operations win any price comparison hands down when measured against other means of long-haul commercial transport within North America."

Railroad Updates

Despite a soft economy, North American railroads remain active in the rolling stock market. As evidence, financial services law firm Chapman and Cutler L.L.P. recently announced it has advised on transactions worth more than $3.5 billion so far in 2007-08.

Last year, the firm — which represents Class I's in lease and pass-through financings of locomotives, rail cars and intermodal facilities — helped clients in 26 separate leveraged lease financings involving more than $1.7 billion worth of locomotives and equipment, including coal, grain, box and refrigerated cars, and intermodal containers.

Economic factors are well aligned in rail's favor, such as strong growth in coal volume, agricultural exports and international trade, Chapman and Cutler said.

"The continuing spikes in fuel and labor costs have put trucking firms at a disadvantage to other forms of transportation," said Michael McGee, who heads the firm's rail finance group, in a prepared statement. "In particular, rail operators win any price comparison hands down when measured against other means of long-haul commercial transport within North America."

Railroads also are benefiting from increasing demand on businesses to reduce fossil fuel emissions.

"Today's trains leave a smaller carbon footprint per mile for the amount of goods they carry," said McGee. "Even in the face of the ongoing tightness in the credit markets, there appears to be considerable investment appetite among investors for rail equipment financings."

BNSF buys land in Dallas logistics park for proposed intermodal terminal

BNSF Railway Co. has purchased 198 acres in the Dallas Logistics Hub in Dallas and Lancaster, Texas, according to hub developer The Allen Group. The Class I is exploring the possibility of building an intermodal terminal in the logistics park, which will include 60 million square feet of office and industrial facilities served by rail, truck and air.

BNSF also entered into an option agreement with The Allen Group to purchase an additional 164 acres.

The 198-acre property provides BNSF more than 9,000 feet of rail frontage, representing a portion of the 2.5 miles of the railroad's track frontage within the logistics park.

The Allen Group is helping BNSF develop a 1,000-acre logistics park — which will include an intermodal terminal — near Gardner, Kan.

Read more at:
http://www.progressiverailroading.com/prdailynews/news.asp?id=16518

AAR Updates

Bill aimed at rebuilding nation's infrastructure enters House

Last week, Rep. Earl Blumenauer (D-Ore.) introduced the U.S. Commission on Rebuilding America for the 21st Century Act (H.R. 5976), which proposes to address the nation's infrastructure crisis by providing Congress a mechanism to develop national infrastructure investment guidelines.

The bill would establish a 17-member commission — with members appointed by Congress, the current administration, and state and local governments — to guide investment in the nation's infrastructure. The commission would identify infrastructure challenges and needs, conduct public hearings across the United States to ensure geographic and demographic representation, and develop a "national vision" for infrastructure investments.

"By making the right investments now in our nation's infrastructure, we can create jobs to stimulate the economy... and keep America competitive with other nations..."

The National Surface Transportation Policy and Revenue Study Commission recently determined the price tag to maintain the nation's transportation system will be $225 billion annually over the next 50 years, said Blumenauer in a prepared statement.

"By making the right investments now in our nation's infrastructure, we can create jobs to stimulate the economy, prepare the nation for global warming — the greatest challenge of our generation — and keep America competitive with other nations that are outpacing our investments," he said.

The next Congress could consider H.R. 5976 in conjunction with reauthorization of a highway spending bill, Blumenauer believes. The highway legislation could be transformed into an intermodal spending bill that would benefit rail and transit projects in addition to road construction, he said in a news item on the United Transportation Union's Web site.

Read more at:
http://www.progressiverailroading.com/prdailynews/news.asp?id=16513

Railroad Traffic

Container shortage frustrates U.S. exporters

Surging U.S. exports on a range of goods including corn, soybeans and frozen pork are hitting a bottleneck in the nation's overloaded ports, threatening to crimp profits for U.S. farmers and agricultural processors at a time when it is easier than ever for them to sell their goods abroad.

The problem can be traced to a shortage of once-plentiful shipping containers and other transportation equipment, along with a lack of space on outgoing ships. The shortage is affecting other industries, including exporters of manufactured goods and sellers of scrap metal

What's Happening:

A lack of shipping containers may crimp farm profits at a time of strong demand for farm goods abroad

The Cause:

A slowdown in the U.S. and soaring demand for U.S. farm exports and cargo carriers shifting ships to non-U.S. ports

The Upshot:

The shortage could further boost food prices

The Agricultural Transportation Coalition has suggested that participants discuss solutions with congress so that carriers will respond more to supply and demand

and paper.

Exporters' frustration is building even as U.S. agricultural exports have jumped 20% by weight in the six months ended Feb. 29, compared with the same period last year, according to the Department of Agriculture. Shipments of lentils and peas are being delayed by months [and] cargo-ship operators are raising prices. Many cold-storage facilities are packed to near capacity with pork and other meat products waiting to be loaded into containers -- rectangular boxes that are generally 20-feet or 40-feet long.

Peter Friedman, executive director of the Agricultural Transportation Coalition, estimated agricultural exporters could have shipped 20% to 30% more products in the past six months if more containers were available.

The port congestion comes as food prices are rising and grain stocks are dropping amid a surge in demand from fast-expanding nations such as India and China. Two other factors boosting food prices are the increasing use of grains in the production of biofuels and poor harvests in several big food-producing nations. The increased shipping costs could push grain prices higher still.

"My partner and I are pulling our hair out trying to figure out what to do," said Larry Jansky, a senior trader in agricultural commodities for North Pacific Group Inc., which trades specialty grains and is based in Portland, Ore. Birdseed and other grain cargo he had scheduled to leave the country for the Far East and Caribbean in late February and early March now won't ship until later this month, he said.

Finding enough containers for agricultural products used to be easy. The U.S.'s massive demand for imports meant shipping firms typically scoured the country for anyone willing to fill outgoing boxes. Often grains, scrap metal and paper fit the bill; however, as shipping lines have shifted more of their fleet to lucrative routes in Asia and between Asia and Europe, there are fewer containers available to handle grains and other commodities in the vast agricultural heartlands of the U.S. and Canada.

Partly to address the problem, Mr. Friedman of the Agricultural Transportation Coalition held a conference call with 59 members in late April to discuss what to do. Participants talked about getting Congress -- with the help of other industries -- to repeal parts of a shipping law that allows carriers to discuss and fix transportation rates and service. By doing so, he believes carriers will respond more to supply and demand. They also considered pushing federal regulators to examine shipping companies' pricing practices.

Mr. Friedman worries any possible solution will come too late to help with the container shortage. U.S. agricultural exporters currently worry their customers will start buying from other countries that produce grains, meat and other commodities.

Read more at:
http://online.wsj.com/article/SB121028483313278907-email.html

Industrial Inside

Home prices in 20 U.S. metropolitan areas fell in March by the most in at least seven years, according to the S&P/Case-Shiller Home Price Index. The index fell 2.2% in March from February, and it dropped 14.4% from a year earlier, the most since the figures were first published in 2001. In April, the U.S. housing starts were at a seasonally adjusted annual rate of 1.032 million units in April, 8.2% above the revised March estimate and 30.6% below the revised April 2007 rate, according to the Census Bureau. The multifamily sector drove the increase, rising to a rate of 340,000, 36% higher than the March level and 17.6% above a year ago. Single-family starts were at a rate of 692,000, 1.7% below the March figure. Building permits were at a SAAR of 978,000, 4.9% higher than the March rate but 34.2% below the year-ago figure.

Home builders remained downbeat as market conditions continued to erode in May, according to the National Association of Home Builders/Wells Fargo Housing Market Index. The index fell a single point to a reading of 19, bringing it to within a point of the record low of 18 set in December 2007. "With the HMI hovering in the historically low 2-point (spread) that's prevailed over the past nine months, the message is very clear: The single-family housing market is still deteriorating and Congress and the Administration must move immediately to enact legislation that will help reverse the trend," said NAHB President Sandy Dunn.

"Turmoil… in the credit markets and a weakening economy guarantee that 'housing markets will face another challenging year in 2008…'"

Although the national housing outlook has continued to deteriorate this spring, housing is expected to start climbing into positive territory before the end of the year in some parts of the country, according to the National Association of Home Builders' state and top 100 metro housing starts forecast for 2008-2009. Continuing turmoil in the credit markets and a weakening economy guarantee that "housing markets will face another challenging year in 2008 before any meaningful recovery takes hold in 2009," the forecast says. The Northeast will be the first to emerge from the current housing correction, according to the forecast. The largest markets in the Northeast -- New York, Boston, and Philadelphia -- avoided the overbuilding that accompanied the price run-ups in other markets, and the absence of large unsold inventories will help mitigate the downward pressure on prices that will drag out the recovery process in other markets, according to NAHB.

Read more at:
http://www.rlpi.com/base.asp?pub=list&s1=Daily_WoodWire&s2=Other_Industry_News&s3=Housing&s4=

Financial Focus

Federal Reserve officials acknowledge they are fighting a difficult, two-front war against slow economic growth and high inflation fed by

Federal Reserve officials downgraded expectations for the economy at their April policy meeting

Weaker Outlook

Federal Reserve officials downgraded expectations for the economy at their April policy meeting.

	2008		2009	
	January forecast	April forecast	January forecast	April forecast
Inflation-adjusted GDP growth	1.3 to 2.0%	0.3 to 1.2%	2.1 to 2.7%	2.0 to 2.8%
Unemployment rate*	5.2 to 5.3	5.5 to 5.7	5.0 to 5.3	5.2 to 5.7
PCE inflation, all items†	2.1 to 2.4	3.1 to 3.4	1.7 to 2.0	1.9 to 2.3
PCE inflation, excl. food and energy	2.0 to 2.2	2.2 to 2.4	1.7 to 2.0	1.9 to 2.1

Note: Figures exclude three highest and three lowest projections

*Average for the fourth quarter of the year

†Change from previous year in the price index for personal consumption expenditures

Source: Federal Reserve

soaring commodity prices.

In the minutes of the central bank's April 29-30 policy meeting, Fed officials provided a more downbeat view of the economy than in their latest forecast, in January. Their reduced expectations reflect the continuing housing downturn and credit crunch, as well as rising prices for food and energy.

Many said their monetary-policy tool, interest rates, "would be able to foster only a gradual return" of the economy to optimal levels, said the minutes, which were released Wednesday. Even in 2010, they said, the unemployment rate and inflation would be higher than they desired.

Rates likely to hold steady through much of this year

The minutes of the meeting, released after the customary three-week lag, confirmed signals sent by Fed officials in recent weeks that the central bank is likely to hold rates steady through much of this year.

The minutes said the decision to cut the Fed's benchmark federal-funds rate -- at which banks lend each other money overnight -- by a quarter percentage point to 2% was "a close call," considering they already had cut rates aggressively since the summer and taken steps to improve market functioning. Two of the 10 voting members of the rate-setting Federal Open Market Committee dissented from the decision.

Policy makers indicated a reluctance to cut rates further. "Several members noted that it was unlikely to be appropriate to ease policy in response to information suggesting that the economy was slowing

Fed says, after cutting rates from last summer, it must now look to financial institutions to raise capital and take other actions to maintain market functioning

further or even contracting slightly in the near term, unless economic and financial developments indicated a significant weakening of the economic outlook," the minutes said.

In a speech Wednesday, Fed Governor Kevin Warsh said the central bank -- after cutting rates from 5.25% last summer and introducing several lending programs to ease market pressures -- now must look to financial institutions to raise capital and take other actions to improve market functioning.

"Even if the economy were to weaken somewhat further, we should be inclined to resist expected, reflexive calls to trot out the hammer again," Mr. Warsh said. "Private efforts are critical to improving market functioning, and until this process is more advanced, the economy is unlikely, in my view, to return to sustainable trend-rate growth."

The 17 Fed policy makers update their forecasts at every other policy meeting. The "central tendency," which excludes the three highest and three lowest figures, predicts growth of 0.3% to 1.2% this year, with the unemployment rate averaging 5.5% to 5.7% in the fourth quarter. That is a substantial weakening from the January forecast, when growth was projected at 1.3% to 2% this year, with a jobless rate averaging 5.2% to 5.3%. The projections now put growth next year at 2% to 2.8% and unemployment between 5.2% and 5.7%; both are a bit worse than the January forecast.

Fed officials foresee the downside risks to growth "to be more closely balanced by the risks of inflation"

The outlook on inflation also darkened. The central tendency of the forecasts put overall inflation at 3.1% to 3.4% this year, up a full percentage point from January, based on the price index for personal-consumption expenditures. Excluding food and energy, inflation is expected to be between 2.2% and 2.4%. Fed officials generally want core inflation limited to 1.5% to 2%. They now expect inflation in 2009 to be in the upper end of that target zone -- about 1.9% to 2.1%.

Fed officials foresee the downside risks to growth "to be more closely balanced by the risks to inflation," the minutes said. Price increases for oil, food and other commodities drew particular concern, as did some signs that inflation expectations had risen.

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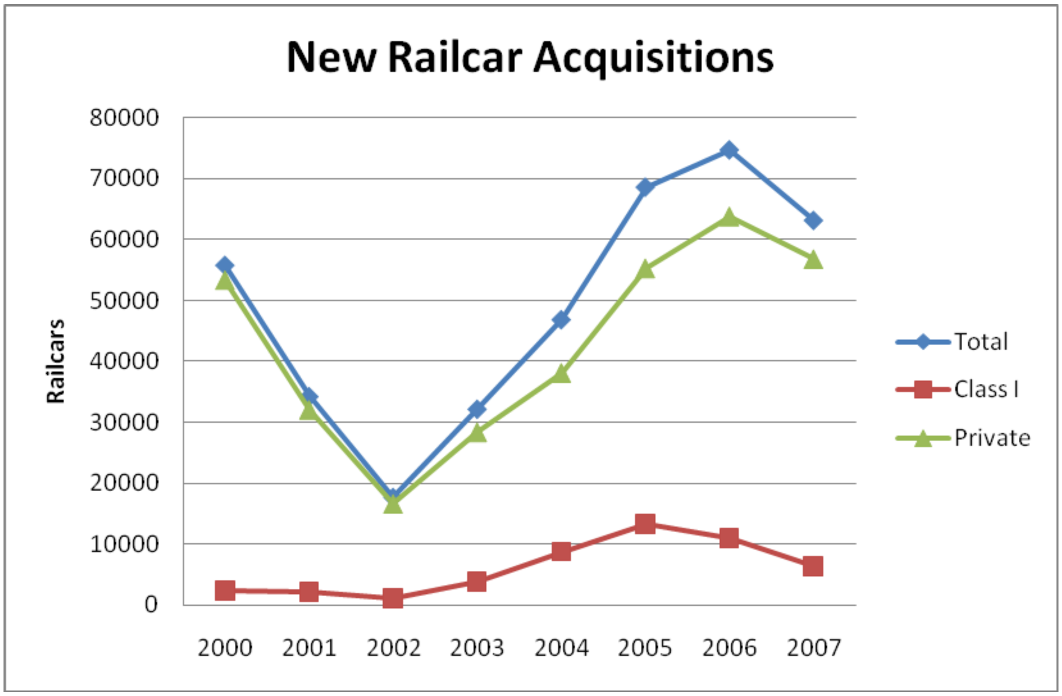
The Edge

The annual railcar fleet data is out and it's always interesting to take a look at the railcar statistics to determine if there are any changes in trends. As an advisor to shippers, receivers and developers of mostly bulk commodity transport options we like to stay up on the private versus railroad railcar ownership trend to see if railroads are making a resurgence in any particular railcar type. The chart below shows new railcar acquisitions from the year 2000 to 2007. The trend continues to hold that railroads are investing their dollars in other infrastructure and are requiring shippers, Lessors and private investors to invest in railcars. In fact during this time frame we see no more than 20% of the mix being acquired by railroads and in some years as low as 4%.



If we look further, we see specific railcar types loosing even more ground. The Plain Box car (and to a lesser degree, Equipped Box cars) have been dying a slow death for a number of years and appear to be mostly rationalized to a select group of shippers.

Conversely, through growth continues in sectors one would expect. Gondolas to haul coal, covered hoppers to support grain and grain products (DDG) and tank cars to haul fuel and ethanol have all trended up.

In 2007, there were a reported 1.39 million railcars of which 63.2 thousand were new deliveries. Of the 63.2 thousand new deliveries 90% are private acquisitions (non-railroad purchased). The trend continues and the message continues to be delivered by major railroads. For the most part shippers will continue to support their business with their private owned or leased railcars.

We look forward to earning your business!