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AAR Circular solicits comments regarding extended service status

Proposed change would allow cars built after July 1, 1968 to be eligible for Extended Service Status and interchange service

Railroad & Policy Updates

On May 24, 2012, the Association of American Railroads (AAR) released Circular Letter C-11682 with the subject line "Solicitation of Comments: Office Manual Rule 88-Extended Service Status." In accordance with Rule 123, the committee is soliciting comments regarding this proposed change. Details of the circular follow.

During the April 2012 meeting of the Arbitration and Rules Committee, a proposal as advanced by the Equipment Engineering Committee was reviewed and accepted.

During the most current economic recession a number of car owners have cars that surpassed the 40 year date without obtaining Extended Service Status. This happened for a number of reasons, but with the rebound in rail traffic and new car capacity constraints the proposal below was developed for cars past the 40 year date.

Current C.1.f Extended Service Status Units (page 19)
(1) Units (other than tank cars) built prior to July 1, 1974, up to 40 years of age will be eligible to continue in interchange service for 50 years from the original month and year built, provided that proof of compliance for the following (a) or (b) or (c), is provided for verification by the Equipment Engineering Committee.

Tank cars built prior to July 1, 1974, up to 40 years of age will be eligible to continue in interchange service for 50 years from the original month and year built, provided that proof of compliance for the following (a) or (b) and a thorough structural inspection of representative units, made at time of application in accordance with the guidelines listed under (c), is provided for verification by the Equipment Engineering Committee. Additionally, for tank cars, the requirements outlined in AAR Circular Letter CPC-1194 (November 20, 2008) must be followed.

(a) Complete documentation, stress analysis, and specifications to.............

Proposed C.1.f Extended Service Status Units
(1) Units (other than tank cars) built prior to July 1, 1968 and not currently approved for Extended Service Status under Rule 88 C.1.f. or Rebuilt Status under Rule 88 Section C.1.c. will not be eligible for Extended Service Status, however may continue in interchange service for up to 50 years provided that they are rebuilt in accordance with the provisions of AAR Office Manual Rule 88 Section C.1.c. Cars built on or after July 1, 1968 will be eligible for Extended Service Status if the Extended Service Status application and compliance with the provisions of AAR Office Manual Rule 88 Section C.1.f. are completed by July 1, 2014. Cars built prior to July 1, 1974 and over 40 years old must be removed from interchange service until the provisions of

Extended Service or Rebuilt Status are completed. Cars built on or after July 1, 1974 have a 50 year service life. To obtain Extended Service Status, proof of compliance for the following (a) or (b) or (c) must be provided for verification by the Equipment Engineering Committee.

Tank cars built prior to July 1, 1968 and not currently approved for Extended Service Status under Rule 88 C.1.f. or Rebuilt Status under Rule 88 Section C.1.c. will not be eligible for Extended Service Status, however may continue in interchange service for up to 50 years provided that they are rebuilt in accordance with the provisions of AAR Office Manual Rule 88 Section C.1.c. Tank cars built on or after July 1, 1968 will be eligible for Extended Service Status if the Extended Service Status application and compliance with the provisions of AAR Office Manual Rule 88 Section C.1.f. are completed by July 1, 2014. Cars built prior to July 1, 1974 and over 40 years old must be removed from interchange service until the provisions of Extended Service or Rebuilt Status are completed. Tank cars built on or after July 1, 1974 have a 50 year service life. To obtain Extended Service Status, proof of compliance for the following (a) or (b) and a thorough structural inspection of representative units, made at time of application in accordance with the guidelines listed under (c), must be provided for verification by the Equipment Engineering Committee. Additionally, for tank cars, the requirements outlined in AAR Circular Letter CPC-1194 (November 20, 2008) must be followed.

(a) Complete documentation, stress analysis, and specifications to............. (THIS SENTENCE NOT CHANGED)

Comments should be directed to the undersigned within 30 days at the address shown below or by email to tstahura@aar.org. All comments received will be considered by the sponsoring Committee prior to taking final action

Comments should be directed to the undersigned within 30 days at the address shown below or by email to **tstahura@aar.org.** All comments received will be considered by the sponsoring Committee prior to taking final action. July 1 is targeted for implementation.

Read the entire article:
http://aarcirculars.aar.org/circularHTMLView.aspx?id=2505&source=c

Mechanical Brief with Steve Christian

Educate your personnel on correct operating procedures and severely treat noncompliance...

it's your maintenance dollars that are being needlessly wasted

As is usually the case, my writing this month includes a recent observation I made during an on-site inspection I made at a customer's mine site that deserves to be discussed. Prior to inspection, the customer had been complaining that the wheelsets on the "B" end of one of their cars had mysteriously developed flat spots and was now pounding their rail. Upon investigation of the car, I found that there was actually a lot of built up tread (no slid flats) on the two "B" end wheelsets while the "A" end wheelsets were fine. Further investigation showed that the piston travel at all 4 locations was correct, the handbrake operated properly and the cars brakes set and released.

I knew that these cars were equipped with Wabcopac brakes and I knew that the problem stemmed from them. After all, during my shop days I had much experience remedying issues cased by Wabcopac brakes. Wabcopac

Wabcopac brakes are truck mounted brakes that utilize brake cylinders mounted on cast brake beams that push and pull in concert with each other on each truck set to operate the brakes. The piston travel should be adjusted over time as components wear

Consider Wabcopac II conversions – they will pay for themselves in wheel and brake shoe replacement costs over time

AAR reports mixed rail traffic for April

brakes are truck mounted brakes that utilize brake cylinders mounted on cast brake beams that push and pull in concert with each other on each truck set to operate the brakes. There is no slack adjuster so the piston travel is **manually** set when the trucks are initially set up and the braking forces change as the brake shoes wear and are replaced. The piston travel should be adjusted over time as components wear. The handbrake is high powered and sets the brakes on the "B" end only. Therefore, the task of holding the car with the handbrake falls solely on the "B" end trucks. The AAR Field Manual, Rule 41.A.1.j, has an excellent picture of this defect. Note that 1/8" of built up tread or more condemns the wheel. In this case, the customer wheels were well in excess of 1/8".

It seemed pretty evident to me that someone had dragged the car around with the handbrake set for quite a while. The brake shoes drag metal from the tread and deposit it at another location on the tread. As the brake shoes wear and allow the wheel to rotate more, the deposits of metal become more evenly distributed around the wheel.

The question then becomes, why would anyone leave a handbrake applied and drag the car around? The answer is usually laziness and apathy. If a switchman must walk several car lengths to release a handbrake and he really doesn't worry about the condition of the car, he may drag the car to him if he has sufficient tractive effort to do it. I have witnessed it done on many occasions on both railroads and industry tracks. The brakes squealing and even sparks flying don't seem to convince the switchman that it is worthwhile to walk to the handbrake. It is amazing how quickly built up tread occurs. Educate your personnel on this and severely treat noncompliance. It's your maintenance dollars that are being needlessly wasted.

The subject of Wabcopac truck mounted brakes brings up another issue that I like to get on the soapbox about. If you have this type of braking you should consider the Wabcopac **II** conversion. This is a very desirable upgrade that places a slack adjuster on each truck to compensate for brake show wear and maintain even braking forces. It won't remedy handbrakes left applied by operators but it will pay for itself in wheel and brake shoe replacement costs over time.

We advise that car operators not only perform proper maintenance of repair and service issues but also conduct through training of operating procedures. Call on us when you have issues requiring professional advice and training.

*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

The Association of American Railroads (AAR) reported May 3, 2012 that U.S. rail carloads originated in April 2012 totaled 1,113,105, down 64,335 carloads or 5.5 percent, compared with April 2011. Intermodal volume in

April carload gains included petroleum and petroleum products, motor vehicles and parts, crushed stone, gravel, and sand, and other primary metal products

Commodities with carload declines in April were led by coal, grain, iron and steel scrap, and farm products excluding grain

As of May 1, 2012, freight cars in storage were equal to 20.1 percent of the North American fleet. Total cars in storage have increased for five straight months

April construction starts rise 11 percent nationwide

April 2012 was 946,951 trailers and containers, up 32,505 units or up 3.6 percent, compared with April 2011.

Twelve of the 20 commodity categories tracked by the AAR saw carload gains in April 2012 compared with April 2011, including petroleum and petroleum products, up 11,376 carloads, or 43.1 percent; motor vehicle and parts, up 11,360 carloads, or 21.1 percent; crushed stone, gravel, and sand, up 6,617 carloads, or 9.3 percent, and steel and other primary metal products, up 3,297 carloads, or 8.1 percent.

Commodities with carload declines in April were led by coal, down 85,719 carloads, or 16.6 percent compared with April 2011. This was coal's biggest year-over-year percentage decline in rail traffic on record. Other commodities with declines included grain, down 16,402 carloads, or 17.2 percent; iron and steel scrap, down 1,067 carloads, or 5.3 percent, and farm products excluding grain, down 448 carloads, or 12.9 percent. Carloads excluding coal and grain were up 37,786 carloads, or 6.7 percent.

"In 2011, U.S. freight railroads reinvested more than ever before in the national rail network, because they know America's manufacturers, farmers, and resource producers need to move freight safely and cost effectively to continue to grow in the years ahead," said AAR Senior Vice President John T. Gray. "Month-to-month trends may vary, but the long-term demand for rail service will certainly rise."

Class I railroad employment in March was up by 1,295 employees from February 2012 to 160,523, its highest level since December 2008. Total Class I employment in March was up by 4,681 employees, or 3 percent, compared with March 2011. About two-thirds of the increase in rail employment in March was due to an increase in maintenance of way and structures employees. These are signalmen, track gangs, and others who build and maintain track, bridges, signal systems, etc.

As of May 1, 2012, 307,957 freight cars were in storage, an increase of 8,633 from April 1, 2012, and equal to 20.1 percent of the North American fleet. Total cars in storage have increased for five straight months.

Visit the AAR at:
http://www.aar.org/NewsAndEvents/Freight-Rail-Traffic/2012/05/03-railtraffic.aspx

Industrial Inside

New construction starts in April advanced 11 percent to a seasonally adjusted annual rate of $531.3 billion, according to McGraw-Hill Construction, a division of The McGraw-Hill Cos.

The increase for April followed a 23% gain in March, as contracting soared well above its lackluster pace at the outset of 2012. Much of the lift in March came from work at a nuclear power facility in Georgia, and a similar lift was provided in April by work at a nuclear power facility in South Carolina.

During the first four months of 2012, total construction on an unadjusted basis came in at $138.2 billion, up 4% from the same period a year ago

"Aside from the boost coming from this year's nuclear power projects, the picture for construction starts in early 2012 is one of deterioration though March followed by some improvement in April"

"Highway and

Aside from the strength shown by electric utilities, April drew support from an improved amount of public works construction and a sizeable upturn for nonresidential building after a weak March. Also contributing to April's gain for total construction was a slight increase for residential building. During the first four months of 2012, total construction on an unadjusted basis came in at $138.2 billion, up 4% from the same period a year ago.

The latest month's data raised the Dodge Index to 112 (2000=100), compared to 102 for March. Both April and March were considerably above the full year 2011 average for the Dodge Index at 91, as well as above the depressed readings for the Index in January (85) and February (83).

The April construction start statistics included $8.5 billion for work at the Virgil C. Summer nuclear power facility near Jenkinsville, S.C. In late March, the U.S. Nuclear Regulatory Commission approved a combined construction and operating license for Units 2 and 3, enabling construction work to begin on the two nuclear reactors. This follows more than $1.0 billion related to site work at the Summer facility, which had been entered into the construction start statistics during 2011.

If both the Vogtle nuclear power facility in Georgia (entered as a March 2012 start) and the Summer nuclear power facility are excluded from the March and April statistics, respectively, then total construction starts in March would be down 3% followed by a 13% increase in April. The pace of total construction starts for April without the Summer nuclear facility would be $429.3 billion (annual rate), producing a reading of 91 for the Dodge Index, the same as the average monthly pace for total construction in 2011.

"Aside from the boost coming from this year's nuclear power projects, the picture for construction starts in early 2012 is one of deterioration though March followed by some improvement in April," stated Robert A. Murray, vice president of economic affairs for McGraw-Hill Construction. "The overall level of activity continues to hover within a set range and has not yet shifted from a hesitant up-and-down pattern to more steady expansion. On a positive note, nonresidential building in April was able to bounce back, suggesting that this sector's current status is not quite as weak as portrayed in February and March."

Non-building Construction

Non-building construction in April advanced 15% to $245.6 billion (annual rate). The electric utility category was able to climb 9% on top of its exceptional March rate, as work at the Summer nuclear power facility in South Carolina matched the lift coming in March from the Vogtle nuclear power facility in Georgia.

In addition, April included the start of other large electric utility projects – a $1.1-billion natural gas-fired power plant in Virginia, a $668-million waste-to-energy facility in Florida, a $375-million wind farm in Illinois, and two wind farms in Pennsylvania valued at $220 million and $210 million. For public works construction, the miscellaneous public works category (which includes mass transit) jumped 106% in April, led by an $877-million segment of the Eagle P3 commuter rail project in the Denver area. The environmental public works categories in April registered large gains,

bridge construction continues to deal with diminished federal funding and the uncertainty created by the repeated short-term extensions of SAFETEA-LU"

after their weak activity earlier in 2012. River/harbor development climbed 35%, helped by a $99-million dredging project on the Mississippi River in New Orleans. Water supply construction jumped 26%, supported by a $242-million water tunnel project in New York City, and sewer construction grew 24%.

Essentially flat in April were highway construction, up only 2%, and bridge construction, down 1%. The April amount for highway and bridge construction was 10% below the average monthly pace for these project types during 2011.

Murray noted, "Highway and bridge construction continues to deal with diminished federal funding and the uncertainty created by the repeated short-term extensions of SAFETEA-LU, the multiyear transportation legislation that expired in 2009."

Read the entire article at:
http://mountainstates.construction.com/mountainstates_construction_news/2012/0524-april-construction-starts-rise-11-percent-nationwide.asp

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Financial Focus

Feeble U.S. job growth stokes fears of global slowdown

According to an article in the New York Times, for a third year, the economic recovery in the United States is floundering, stoking fears of a global slowdown as the European crisis escalates.

In May 2012, the nation's employers added the fewest jobs in a year and the unemployment rate actually rose, the Labor Department reported June 1, 2012. May was not a fluke either. It was the third consecutive month of disappointing results.

The weakening recovery is a serious vulnerability for President Obama as he faces re-election and it provides traction to his Republican rival, Mitt Romney, who says the administration has not done enough to strengthen the economy. Because Washington remains deeply divided over how best to stimulate growth, the report increases the pressure on the Federal Reserve to take further action on its own.

The economy now seems to be following the spring slowdown pattern of the last two years — a bright spot of accelerating growth followed by a slump

The United States gained a net 69,000 jobs in May, for an average of 96,000 over each of the last three months. That is down from a 245,000 gain on average from December through February. The unemployment rate rose to 8.2 percent in May from 8.1 in April, though largely because more people began looking for work. And there was more bad news: job gains that had been reported in March and April were revised downward.

Economists can explain away a month or two of dismal numbers, but a three-month run is difficult to ignore. The economy now seems to be following the spring slowdown pattern of the last two years — a bright spot of accelerating growth followed by a slump. The news on June 1 even raised mentions of a possibility that dogged last year's forecasts but did not come to pass: another recession.

The report on American jobs added to the global pall that has deepened with Europe's debt crisis and slowing growth in China and India. Global financial markets, weak in early trading on June 1, sank further on the report. The Dow Jones industrial average lost 2.22 percent, or 274.88 points, wiping out its gains for the year, and the main index of the German stock market closed down 3.4 percent.

The underlying pace of the domestic economy is a slog, driven by manufacturing and restrained by slackening global demand

Yields on United States and German government bonds also slumped as investors bid up the bonds' prices looking for safety. The 10-year Treasury yield fell to another record low, 1.46 percent, and the German two-year bond fell below zero.

Steve Blitz, chief economist of ITG Investment Research, said that the big improvements over the winter were not a true acceleration but simply a catch-up after last year's dip. The underlying pace of the domestic economy is a slog, driven by manufacturing and restrained by slackening global demand. "The reason why it was never going to build momentum going forward was simply because the rest of the world was slowing down," he said.

Once again, uncertainty became a dominant theme. "Manufacturers are very concerned about Europe because a blowup in Europe means a global slowdown," said Ellen Zentner, the senior United States economist for Nomura, the financial services firm. "It hasn't translated into layoffs — businesses are just hiring less."

Charles Ingram, vice president for marketing and sales at Eriez Magnetics, which produces industrial equipment, said the company was still hiring and still getting orders, but watching developments closely. "We're very diverse, so if one or two industrial markets are down, we're O.K.," he said. "But if there's a general recession, that would be a real problem, and that's certainly a possibility."

The May jobs report showed gains in health care, transportation and warehousing, and wholesale trade, while construction jobs fell by a seasonally adjusted 28,000

Republicans immediately seized upon the jobs numbers as an opportunity to criticize Mr. Obama's economic policies. Mr. Romney called the report a "harsh indictment of the president's handling of the economy" and "devastating news for American workers and American families."

The White House emphasized that the report showed the 27th month of job gains, and called on Congress to pass the president's numerous job-related proposals.

The May jobs report showed gains in health care, transportation and warehousing, and wholesale trade, while construction jobs fell by a seasonally adjusted 28,000. Even some bright spots, like booming auto sales, failed to meet expectations or to bolster manufacturing employment by much — only 12,000 jobs.

Once again, government reduced workers, driven by cutbacks at the local level.

"In February or March, I thought the labor market had achieved escape velocity," said Patrick J. O'Keefe, the director of economic research at J. H. Cohn, a consulting firm. "It appears to me now that that was a premature call."

Several members of the Fed's policy-making committee have said in recent days that they were not inclined to change current policy, but that position has always been contingent on continued growth

The gloomy news drew attention to the Federal Reserve, which could choose to step up its stimulus campaign. Several members of the Fed's policy-making committee have said in recent days that they were not inclined to change current policy, but that position has always been contingent on continued growth.

The economy needs to grow by about 125,000 jobs each month just to maintain the current unemployment rate.

When the Fed committee next meets, in late June, it will face the possibility that the recovery has failed once again to take off.

Fears of a global slowdown showed up in other economic data on June 1. Cooling exports dampened the nation's major manufacturing index, though it remained in positive territory. That news came on the heels of several worrisome reports like falling consumer confidence, an uptick in new claims for unemployment benefits and a downward revision of the country's overall economic growth in the first quarter, to a 1.9 percent annual rate from 2.2 percent. Income grew slightly between March and April, another government report said, though consumer spending grew a little more — a situation that economists say cannot last.

The jobs report is based on two surveys, one of businesses and the other of households. The household survey showed a net gain of 422,000 in the number of people employed, and also an uptick in the percentage of the working-age population who have jobs.

But David Rosenberg, the chief economist with Gluskin Sheff, an investment firm, said much of that gain was in part-time work, while the number of full-time workers fell. "Even the good news in this report was bad," he said.

Some analysts said it was too soon to declare a significant slowdown. The recovery's roller-coaster trajectory may be largely illusory, the product of seasonal adjustment distortions and, this year, the unusually warm winter, Ms. Zentner said.

Many economists say the weather effect, which caused some growth to occur earlier in the year than it otherwise would have, should be over by now. Ms. Zentner said, however, that her research showed that historically, May is the month that is most reduced after a warm winter. Seasonal adjustments were also making the winter look better than it was and the spring look worse.

"What the seasonal bias has done is it's made the recovery look like a stop-start recovery," Ms. Zentner said. "Instead, the pace of the recovery has been very steady — very moderate, and disappointing, but steady"

"What the seasonal bias has done is it's made the recovery look like a stop-start recovery," Ms. Zentner said. "Instead, the pace of the recovery has been very steady — very moderate, and disappointing, but steady."
The number of long-term unemployed, those who have been looking for work for more than half a year, rose by 300,000, even as hundreds of thousands of jobless workers lost their unemployment checks because of cutbacks. The long-term unemployed have the most difficulty finding jobs, and many of them say they have not seen any improvement in the job market.

"Nobody has lists and lists of hundreds of available jobs," said Glen Barry of Carmel, N.Y., who worked for the government at the county level for 25 years as a computer operator and was laid off in December 2010. "A lot of people work a job and a half now. Instead of having four people doing the work, they have two people doing the work."

Read the entire article:
http://www.nytimes.com/2012/06/02/business/economy/us-added-69000-jobs-in-may-jobless-rate-at-8-2.html?pagewanted=2

The Edge

U.S. Class I Railroads are posting a decrease of 3.1% in carloads originated for a cumulative 14 weeks ending May 7 over the prior 14 week period. The list leading the decrease is topped by coal carload originations which are down 10.2%. This decrease has more of an impact simply due to the fact that coal commands the largest makeup of a Class I railroads overall originations. This isn't being helped any by the number two origination commodity – grain which is posting an 11% decrease in originated carloads.

The difference between the two though is significant.

Coal is primarily being managed by outside legislative forces that are inadvertently impacting our greatest electrical generation resource. A double whammy is being delivered by the price of coals number one competing fuel, natural gas, which is priced at the lowest level it has ever been since becoming a competing fuel. During the first four months of 2012 coal plant capacity representing 1.442 million megawatts have been permanently retired (source US EIA). The relationship of electrical generation from natural gas compared to electrical generation from coal continues to narrow.

Grain is in the shoulder months at this time. Old crop stocks are moving at a minimum to cover foodstuffs demand and livestock feeder demand with consistent exports occurring as foreign countries need grains to feed their people. New crop reports are healthy with wheat projected to be up 12% at 2,245 million bushels and feed grains (corn, sorghum, barley, oats) up 16% at 416.3 million tons (source USDA). Corn alone is projected to be at a record 14.8 billion bushels. Unlike coal which is demand driven and legislatively influenced grain is often push driven where there's a move required to get it from the field to storage or demand points even if it's not immediately purchased or sold. In looking at USDA projections there will be plenty of grain requiring rail transportation.

What impact has the decrease in coal volumes had on every other commodity?

Oversimplifying the macro railroad perspective, there are four components to physical operations: locomotives, track, railcars and operations personnel. At this time the coal and grain transportation network requires the largest number of locomotives. Given the decrease in coal tonnage being transported and the timing of transportation requirements for the grain business, there is naturally a surplus of locomotive power available to transport other commodities and certainly track capacity to put on scheduled trains. Coal railcars are surplus and grain cars are being staged in a lot of cases on shortlines for anticipated harvest originations. There may be some dislocation of personnel in that many train operators live along coal routes and are not able or willing to relocate to other areas where commodity movements are stronger.

What this means for you differs from corridor to corridor and is certainly dependent on your industry. If you're located in one of these key traffic lanes, you might get more attention than you'd expected. If you've never moved by rail or haven't for a while, it may be a good time to sit in front of the railroad and voice your needs. If you're looking to expand your fleet or broaden your market reach, the time might be perfect to finalize plans. And if you're dissatisfied with your service, the time might be appropriate to discuss changes with your representative. We can help make the discussions focused and successful. Call on us when you need some help.

We look forward to earning your business!