Touchbase March 2015

In This Issue

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Tealinc scholarship is due March 27, 2015

BNSF revamps service with 9 percent fewer cars; strategy paid dividends, eased congestion

Hired more than 7,000 new workers and spending $5.5 billion on improvements to its 32,500 mile network

Tealinc Spring 2015 Scholarship – Now Accepting Application

Tealinc, Ltd. is accepting applications for our annual scholarship. As a company, Tealinc is an adamant supporter of post-secondary education. We have provided over $22,000 in scholarships over the past several years. The applicant must be working in, or be the child (or dependent) of a person working in the rail transportation industry. One scholarship of one thousand ($1,000) will be awarded to a high-school senior and one scholarship of one thousand ($1,000) will be awarded to an enrolled undergraduate college or trade-school student.

Enroll today! The deadline for this application is March 27, 2015.
Click here for the scholarship application and guidelines

Railroad & Policy Updates

Stung by customer backlash over last winter's patchy service, Berkshire Hathaway's BNSF Railways invested billions in shoring up its operations. But in addition to hiring more than 7,000 new workers and spending $5.5 billion on improvements to its 32,500-mile (52,300 kilometer) network, the railway also has done something unexpected: it pulled thousands of rail cars off its lines.

The strategy appears to have paid big dividends this winter, helping ease congestion on tracks and speed up traffic, according to a Reuters analysis of weekly data the industry supplies to the U.S. Department of Transportation.

BNSF rail cars that were stuck at terminals for an average of 35 hours last winter are now back on the tracks in less than a day. The trains are also moving 15 percent faster than they did last year, reducing critical travel times, data shows.

"BNSF disappointed many of its customers," Berkshire Hathaway CEO Warren Buffett said in a letter to shareholders last month about last year's performance of one of North America's top railroads.

"However, our outsized expenditures are beginning to show results." The railway's metrics, which have not been previously reported, have improved markedly this winter, reflecting less congestion, increased investments and weaker demand from the oil and agricultural industries. Since October, BNSF has cut its number of cars by 9 percent to just under 237,000, whereas the rest of the industry grew by 0.4 percent. Anthony Hatch, owner of New York-based transportation consultancy ABH Consulting says all rail operators struggle to strike the balance between the number of cars on the tracks and freight volumes. BNSF is the only major U.S. rail operator, though, to cut the number of cars in the past two years.

MORE WITH LESS

BNSF latest report shows strong year-over-year increases in carloads of grain and petroleum products hauled during the first two months of 2015 combined with double-digit declines in container and trailer volumes

In its latest report, BNSF showed strong year-over-year increases in the number of carloads of grain and petroleum products hauled during the first two months of 2015 combined with double-digit declines in container and trailer volumes.

BNSF spokesman Mike Trevino said that improvements, such as building extra tracks and sidings, essentially allowed fewer cars to move the same amounts of freight.

“We did some things operationally that allowed us to take cars off the railroad while still being able to generate the same or better number of movements," Trevino said.

Other major rail carriers also have spent billions on upgrades and bigger workforce, but none has reduced car counts or seen as dramatic improvements in travel speed and the time cars spent in terminals.

Read the entire article at:
http://www.reuters.com/article/2015/03/11/us-railways-commodities-bnsf-railway-idUSKBN0M70B320150311

Mechanical Brief with Steve Christian

Railcar maintenance on short lines

In my early railroad days, I worked as a carman’s helper and then a carman on the Chicago, Burlington and Quincy Railroad (which eventually became the Burlington Northern). I spent a great deal of time working on bad order cars out of a “road truck” on sidings along the mainline and branch lines. The mainline was the highest priority but the railroad pulled thousands of loads of grain every year out of the branch lines.

The branch line infrastructure was not up to mainline standards but for the most part was quite adequate for low speed traffic. Trains called “Locals” would make their way along branch lines setting out empties for loading and picking up loads to move to a mainline yard for pickup. The branch lines were serviced by many of the same railroad personnel as the mainline. For the most part, the same resources that were available on the mainline were available on the branch lines.

When the operation of these lines changed hands, the new operators had to fill the personnel and resources gap that now existed

Since those days, the class I railroads have been shedding branch lines and low traffic lines have been abandoned all together. Others have been sold or leased to short line railroad operators. When the operation of these lines changed hands, the new operators had to fill the personnel and resources gap that now existed. One of those gaps involved the personnel and resources (tools, equipment and facilities) required to meet the mechanical requirements. These mechanical requirements have been met directly by the short line/regional railroads themselves. Others have turned to contractors to fill this requirement.

Several years ago when I ran multiple shops, I was asked, on multiple occasions, to make a proposal to a few short line/regional railroads to provide railcar inspections and repairs on their line. It was suggested that the quote should include what percentage of the AAR billing we would give them to get this business. I was always very uncomfortable with this. Remote operations like these are set up to be self-supporting entities. The pressures to increase billing in order to preserve jobs are intense. This sort of thing sets the scene for imaginative billing practices. Seeing the pitfalls, I always backed away.

Pressures to increase billing in order to preserve jobs are intense; sets the scene for imaginative billing practices

Now that I have stated all of that, I will get to my message for this month. We have a group of open top hoppers that are used during the construction season and stored during the winter months. They run exclusively on a short line railroad which engages a "mechanical contractor" to perform AAR/FRA inspections and repairs on their line. The contractor works out of a truck ("mobile repairs") to perform repairs on designated sidings. Our bills over the last few years have been very moderate. When I have had the opportunity to inspect the cars they have generally been mechanically sound.

Just recently I received a call from the on-site supervisor for the mechanical contractor. He asked if I would like them to perform some preventive maintenance on the cars before the construction season begins. I asked him to inspect a few cars and send me estimates. Within a couple of hours, I received three estimates that took my breath away. The bills included charges for truck mounted brake beams. *Our cars have conventional brakes with #18 brake beams.* They wanted to renew most of the draft system on both ends. They wanted to renew the friction castings and friction casting wear plates on both trucks. *He had a wheel set included with a why made code that is not valid for that job code*. It looks to me like the inspections were made at his desk and the estimates were his way of meeting revenue demands from his superiors. Obviously, I am not approving the estimates.

My advice to you when it comes to repairs made on short line/regional railroads…

I have worked with many short line/regional mechanical contractors over the years. Some are very reputable and do fine work while others are outrageously poor. What is my advice to you when it comes to repairs made on short line/regionals?

1. Get to know the key personnel including their credentials. Where did they come from? What training do they have?
2. Understand their repair capabilities and limitations.
3. Audit your repair bills closely. I have found Class I bills to be pretty accurate. Short line/regional bills need close scrutiny.

If you don't have the time or resources to perform this function, you should find someone that does. As always, Tealinc stands ready to put our knowledge and experience to work for you.

*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

AAR reports increased traffic for first month of 2015

The Association of American Railroads (AAR) February 2, 2015 reported increased U.S. rail traffic for January 2015, with both carload and intermodal volume increasing compared with January 2014.

For the first month of 2015, combined U.S. carload and intermodal originations were 2,165,909 units, up 70,522 or 3.4 percent over January 2014. The average of 541,477 combined units per week in January 2015 was the second highest for a January on record, behind only January 2006.

U.S. freight railroads originated 1,160,842 carloads in January 2015, up 5.6 percent or 61,864 carloads over January 2014. Total carloads averaged 290,211 per week in January 2015, the most for January since 2008. For intermodal containers and trailers, U.S. railroads originated 1,005,067 units in January 2015, up 8,658 units or 0.9 percent over January 2014, and an average of 251,267 units per week, which is the highest weekly average for January in rail industry history.

"January was a good start to the year for U.S. railroads, helped by the fact that the winter so far this year hasn't been nearly as bad as it was last year"

In January 2015, 18 of the 20 carload commodity categories the AAR tracks saw carload gains compared with January 2014. Commodities with the biggest carload increases were coal, which was up by 19,078 carloads, or 4.4 percent over last year; crushed stone, gravel and sand, up 14,922 carloads, or 22.1 percent; grain, up 8,955 carloads, or 10.4 percent; chemicals, up 4,673 carloads, or 4 percent; and petroleum and petroleum products, up 3,981 carloads or 6.9 percent.

Excluding coal, carloads were up 42,786 carloads, or 6.4 percent in January 2015 over January 2014. Excluding coal and grain, U.S. rail carloads were up 33,831 carloads, or 5.8 percent in January 2015.

"January was a good start to the year for U.S. railroads, helped by the fact that the winter so far this year hasn't been nearly as bad as it was last year," said AAR Senior Vice President John T. Gray. "The AAR recently estimated that U.S. railroads spent a record $27 billion on capital spending and maintenance expenses in 2014, and we're projecting $29 billion in 2015. This massive spending is making it possible for railroads to move their customers' freight more efficiently and reliably and steadily recover from 2014's service issues."

Visit the AAR at:
https://www.aar.org/newsandevents/Press-Releases/Pages/2015-02-04-railtraffic.aspx

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Industrial Inside

Canada-U.S. grain sales drop 35% as trains go East-West

After Eric Fridfinnson's record harvest a year ago, some grain was stuck on his Arborg, Manitoba, farm for six months waiting for railcars. Even with a wheat crop a third smaller, he's still got a three month backlog to ship it south to the U.S.

"They just haven't had the cars and we have to sit and wait," Fridfinnson, who farms 8,000 acres of wheat, flax and oats about 75 miles north of Winnipeg, said in a Jan. 29 interview. "It's no different than any person waiting two months for their paycheck."

Canadian grain

sales to the U.S. and Mexico have plunged 35 percent following a government order designed to relieve the backlog that piled up in 2014

U.S. buyers are sourcing grain from other suppliers as Canadian companies are not confident they will get enough rail cars to deliver on southern rail corridors...

...a shortage of rail cars left as much as C$20 billion worth of grain stuck on prairie farmer last winter

Canadian grain sales to the U.S. and Mexico have plunged 35 percent following a government order designed to relieve the backlog that piled up in 2014, according to the Ag Transport Coalition, which represents grain, oilseeds and pulse crop-shippers. Canadian National Railway Co. and Canadian Pacific Railway Ltd. must move as much as 465,000 tons a week through at least March, 2015 to avoid fines.

They've chosen to increase two-week trips from the prairies to Vancouver or Thunder Bay, Ontario, rather than month-long journeys to some U.S. destinations, Wade Sobkowich, executive director of the Western Grain Elevator Association in Winnipeg, said by phone Jan. 27. The group represents companies including Richardson International and Cargill Ltd. Western Canadian producers stand to lose more than C$2 billion ($1.6 billion) this year because of continued export delays, the Saskatchewan Wheat Development Commission said in a Feb. 11 statement.

Better Prices

Prices for wheat at grain elevators are more than a dollar a bushel higher in North Dakota and Montana, John Duvenaud, the publisher of Wild Oats Grain Market Advisory in Winnipeg, said in a Feb. 4 conference call. "There's a lot of wheat and other crops being moved, being trucked to North Dakota, Montana," he said.

U.S. buyers are sourcing grain from other suppliers as Canadian companies are not confident they will get enough rail cars to deliver on southern rail corridors, Ralph Goodale, deputy leader of the opposition Liberal Party, said in a Jan. 26 telephone interview from Ottawa. The shortage has the biggest impact on farmers in Saskatchewan who are "caught in the middle" and furthest away from eastern and western delivery points, he said.

Kazakhstan Flax

U.S. oat buyers stockpiled as much grain as they could before winter after millers struggled to get supplies from Canada last year, Dan Anderson, a commodities broker with ED&F Man Capital Markets in Chicago, said in a Feb. 10 telephone interview. While most imported oats still come from Canada, shipments from Finland have increased, he said.

Archer-Daniels-Midland Co. recently chose to ship flax from Kazakhstan to Minnesota instead of supplies from Canada, said Fridfinnson, who is also the chairman of the Manitoba Flax Growers Association.

"One of their solutions was to buy flax in Kazakhstan, have it railed north through Russia, brought by boat to the southern U.S. and brought up the Mississippi by barge," said Fridfinnson. "That appeared more reliable than bringing grain from Canada."

Jackie Anderson, a spokeswoman for ADM, declined to comment. Farmers harvested record wheat and canola crops in 2013 and a shortage of rail cars left as much as C$20 billion worth of grain stuck on prairie farms last winter. Railways have not filled 17,701 orders for grain cars since August, about 10 percent of the total demand from shippers, Ag Transport Coalition said in a Feb. 10 report. More than 8,200 rail car orders have been outstanding for four weeks or longer, according to the report.

Record Shipments

Railroads say they are moving record amounts of grain. CN's shipments are up 18 percent between August and the end of January compared with the same time period a year earlier, Chief Executive Officer Claude Mongeau said in a Feb. 9 statement. The railway's cumulative grain tonnage has exceeded the government's mandated volumes by 2 million tons since March, according to the statement.

There's no need to renew mandatory grain minimums, Keith Creel, Canadian Pacific president and chief operating officer said Feb. 10 at a Stifel, Nicolaus & Co. conference in Key Biscayne, Florida.

'Not Needed'

"Number one, not needed," Creel said. "Number two, it didn't make us move more grain. Number three, I don't think the mandate's going to be renewed after this crop year."

Waiting to deliver on grain contracts puts a strain on cash flow and reduces the opportunities for farmers to sell grain when prices rally…

Wheat exports to the U.S. more than doubled between August 2010 and the end of the 2013 crop year, before a sharp pullback. Canada shipped 392,500 metric tons of wheat to the U.S. between August and December, down 58 percent from 937,600 tons a year earlier, Canadian Grain Commission data show. Canola exports declined 49 percent to 115,600 tons during the same time period, government data show.

Last year, Fridfinnson, who's been farming since 1977, trucked his flax to a crush plant in Fargo, North Dakota. Waiting to deliver on grain contracts puts a strain on cash flow and reduces the opportunities for farmers to sell grain when prices rally, he said.

"The more people get desperate for rail cars, the more they're willing to do anything to access them," Fridfinnson said. "It really is a perversion of the market system."

Read the entire article at:
http://www.bloomberg.com/news/articles/2015-02-13/canada-u-s-grain-sales-down-35-as-trains-go-east-west-freight

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Financial Focus

Good news: Unemployment at lowest in 7 years

The winter weather didn't cool the job market in February, 2015.

The U.S. economy added 295,000 jobs in February, which crushed expectations. That beat the estimate from CNNMoney's survey of economists, who predicted 235,000 job gains.

February's job growth shows how far the economy has come in a year. It's the 12th straight month that the economy has gained over 200,000 jobs, and the unemployment rate fell to 5.5%.

That's the lowest unemployment rate since May 2008 -- before the financial crisis. Unemployment has come a long way from a year ago when it was 6.7%.

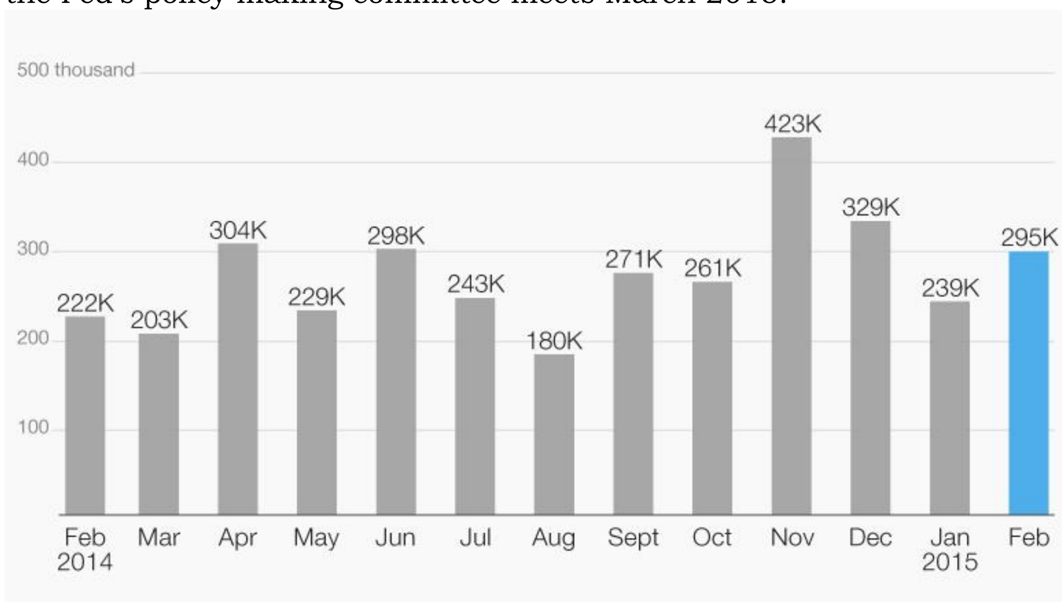
"We have the wind at our back and confidence across so many sectors of our economy," says U.S. Secretary of Labor Tom Perez.

What about wages? As more Americans return to work, the question now is when wages will pick up. Average weekly wages only rose 2% in February compared to a year ago. In a healthy economy, wages gains are between 3.5% and 4%.

The snail-pace wage gains are a key reason why many folks still aren't feeling off better during this recovery.

Wages are quickly becoming the focal point for the economy's health. The Federal Reserve wants to see better wage growth before it raises its key interest rate, which will have a big impact on the economy and markets. On February 28 2015 the report is the last look at the job market before the Fed's policy making committee meets March 2015.

Federal Reserve wants to see better wage growth before it raises its key interest rate, which will have a big impact on the economy and markets



If job growth continues, wages should speed up too, many economists argue. But February's jobs report told the same tale: excellent job gains in recent months with lackluster wage growth.

If job growth continues, wages should speed up too, many economists argue

Wages should pick up if the unemployment stays at or below 5.5%, says Jim O'Sullivan, chief U.S. economist at High Frequency Economics, a research firm.

"That's still the weak part of the report," O'Sullivan says, but "it's not unreasonable to think at some point in the next year, we're going to get more clear cut wage acceleration."

Where the jobs are: Job gains were across the board in many businesses, including retail, health care, and business services.

Job gains were across the board in many businesses, including retail, health care, and business services

Retail businesses added 32,000 jobs last month, continuing their role as leaders in the jobs recovery. On the downside, retail tends to have a higher concentration of low-wage jobs than other sectors.

Unclear whether the energy sector will carry the job growth baton if energy prices don't rebound a bit more

“Now the biggest challenge – from an economic perspective – facing U.S. businesses will be retaining their talent”

One warning sign is that energy companies are starting to scale back employment because of low oil prices. Energy jobs fell for a second straight month in February, although the drop was modest. The energy sector has high-paying jobs, and it played a big role in job growth during the recovery.

But many economists say falling oil and gas prices are positive the economy overall. The national gas average was as low as $2 a gallon at the start of the year, leading the government to predict American households will save $750 this year on fuel. Still, its unclear whether the energy sector will carry the job growth baton if energy prices don't rebound a bit more. One solution could be health care. It had another strong month, gaining 24,000 jobs. Obamacare has undoubtedly driven some of that job progress. But there's a jobs caveat to Obamacare: many employers are trying to cut back hours on part-time employees so they don't have to offer them health insurance.

Still, the overall takeaway is that February, 2015 showed strong signs of America's economy heading in the right direction. After years of business owners having an abundance of job applicants to choose from, now they will have to recruit and retain workers, says Frank Friedman, interim CEO at Deloitte.

"Now the biggest challenge -- from an economic perspective -- facing U.S. businesses will be retaining their talent," says Friedman.

Learn more at:
http://money.cnn.com/2015/03/06/news/economy/february-jobs-295000-us-economy/index.html

The Edge

AAR Data

The Association of American Railroads (AAR) publishes weekly freight rail traffic data. From this data one can determine the level of overall traffic on the nations’ rail system and at the least the anticipated level of congestion to be expected. The chart below shows us a number of things that are and could be important. First it shows seasonality of originated rail traffic movements. The year starts out generally gaining a foot hold from the new-year holiday season running steady until the July 4th week where the celebrations slow down production and shipments, to late summer vacation taking in August to the Thanksgiving holiday then Christmas. A more recent anomaly this year has been the deep March dive in originations predominately led by port strikes, slow downs and congestion still to be worked out but gaining some traction. The value of analyzing shipment data is that you can use the statistics to determine overall anticipated times of congestion and fluidity based on the seasonality of the data. If you have options of production and shipment or need to plan alternative transportation means this seasonality at the least can provide some guidance.

The AAR provides an entire suite of charts, graphs and statistics that provide great data for rail transportation planning. Look them up at **www.aar.org**.

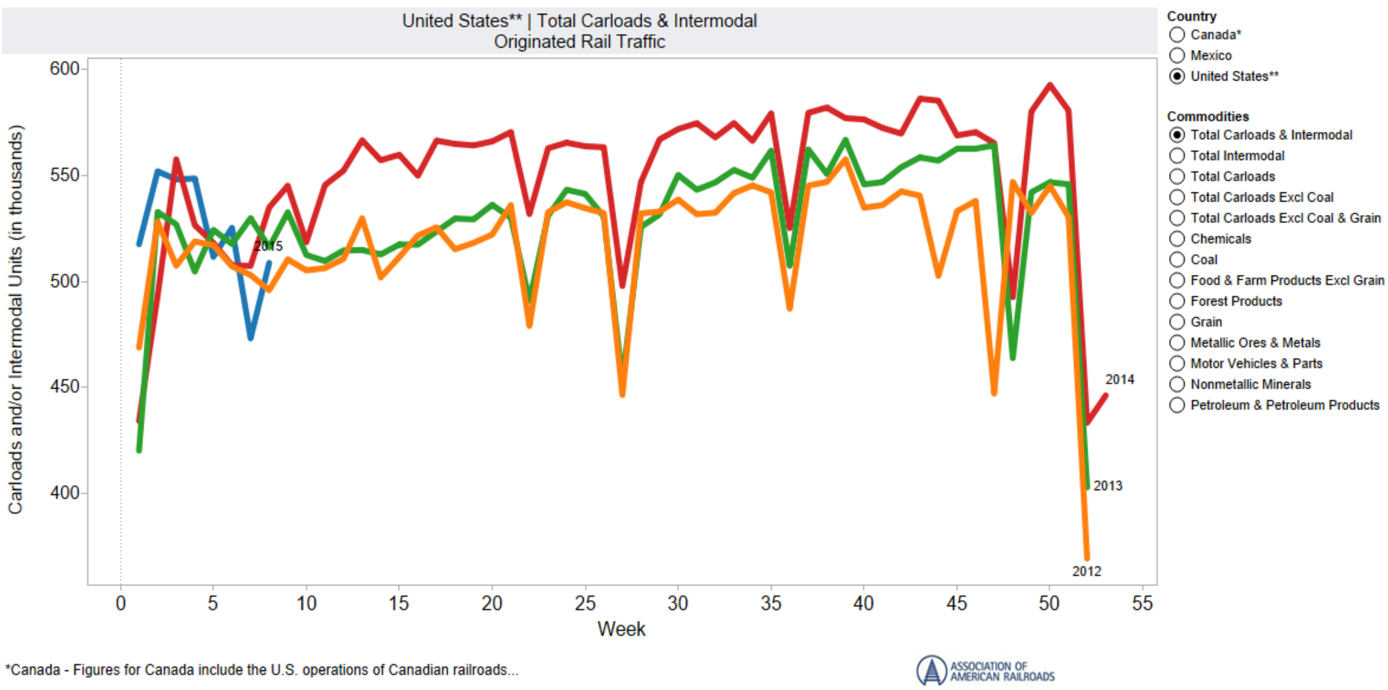


Chart Source: https://www.aar.org/Pages/Freight-Rail-Traffic-Data.aspx#weeklyrailtraffic

Interest Rates
The FOMC Fed Funds Rate currently is set at 0.25%. The news is that the Federal Reserve is holding rates the same for the next couple of FOMC meetings. That means that the third quarter meeting is the one at which the Federal Reserve votes on whether or not to raise the Fed Funds Rate. General consensus projections are that there will some upward movement in the last half of 2015 with projections for 2016 nearing .75% to 1.0%, 2017 at 1.5% to 1.75%, 2018 hovering around 2.0% and 2019 being as high as 2.5%.

All of course depending on the rate of inflation and the economies reaction to new job creation… and a whole host of other economic indicators! The take-away is that if you need to make capital decisions and borrow long term money now's likely the time to do so. The cost of capital from traditional lending institutions and others for that matter aren't likely to get much cheaper.

We look forward to earning your business!