Touchbase

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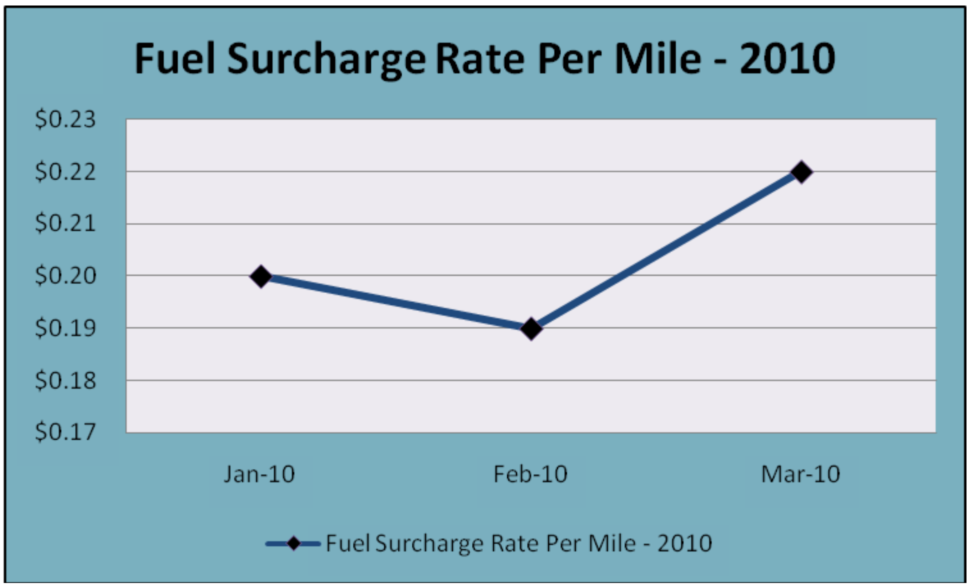
The CSX Transportation HDF fuel surcharge will increase March 1, 2010

"Providing significant rate relief to some shippers will likely result in rate increases for other shippers or threaten railroad financial stability"

Railroad Updates

The CSX announced that its highway diesel fuel/mileage based fuel surcharge, as published in CSXT Fuel Surcharge Publication 8661 as it applies to all regulated linehaul freight rates existing or established by CSXT will increase to 22 cents per mile starting March 1, 2010. This is an increase of 3 cents per mile from February 2010 and is up 2 cents from January 2010.

The 22 cents per mile fuel surcharge is based on the "HDF Average Price" of 284.5 cents per gallon for the calendar month of January 2010. The "HDF Average Price" is on U.S. No. 2 Diesel Retail Sales by All Sellers, as determined and published by the U.S. Department of Energy, Energy Information Administration at www.eia.doe.gov.



Read the entire article:
https://shipcsx.com/secure/ec.shipcsx/Main

Updated Report For STB Warns of Rate-Cut Consequences

Christensen Associates Inc., an independent consulting team studying rail competitiveness for the Surface Transportation Board, has issued a new report finding that "rate increases since 2004 were driven by fluctuating fuel prices and other costs and did not appear to reflect a greater exercise of railroad market power over captive shippers."

The updated report re-emphasized the key finding of an earlier report: "Providing significant rate relief to some shippers will likely result in rate increases for other shippers or threaten railroad financial stability."

The STB said in its summary: "Overall, the updated study painted a

Since late 2008, railroad traffic has dropped nearly 20% from the levels of 2006 and 2007, and preliminary data show rates fell last in 2010

portrait of a healthy rail industry that, since 2006, has remained largely revenue sufficient, meaning railroads are able to cover their operating costs and earn a rate of return that enables them to attract investment vital to pay for more locomotives, railcars, and make other improvements. The study also found that the large productivity gains in the 1980s and 1990s--when the railroad shed excess lines, reduced crew sizes, and streamlined operations--are no longer strong enough to offset rising operating costs."

Christensen also noted that since late 2008, railroad traffic has dropped nearly 20% from the levels of 2006 and 2007, and preliminary data show rates fell [in 2010].

The original report was issued in November 2008. The STB ordered it to be updated to reflect shippers' concerns that "the report's study period ended in 2006 and did not include subsequent years of rapidly escalating costs."

Read the entire article:
http://www.railwayage.com/breaking-news/updated-report-for-stb-warns-of-rate-cut-consequences.html

Intermodal Reaches Market Share High In 4Q 2009; Heavy Truck Orders Fall To Seven-Year Low In January

In the fourth quarter [2009], intermodal not only gained market share from trucks, but set a quarterly record in the process, according to transportation forecasting firm FTR Associates. Intermodal's share of U.S. domestic and international long-haul moves (550 or more miles) totaled 13.3 percent, up 0.2 percent compared with the third quarter's share and slightly above the previous high-water mark set in fourth-quarter 2008.

"Intermodal has gained share for three consecutive quarters since the freight meltdown late last year"

"Intermodal has gained share for three consecutive quarters since the freight meltdown late last year," said Lawrence Gross, FTR's senior consultant, in a prepared statement. "This latest increase has been driven by improvement in the international intermodal sector, an indication that imports and exports are rebounding faster than domestic traffic. The market share of the domestic intermodal sector, which had been growing earlier in the year, was flat in the fourth quarter."

If railroads maintain their current "high levels of service," intermodal's domestic market share will resume growing

If railroads maintain their current "high levels of service," intermodal's domestic market share will resume growing "even as the international sector continues to rebound," he said.

Meanwhile, FTR also reported that heavy truck (Class 8) orders for all major North American OEMs totaled about 6,221 units in January — the lowest monthly level since July 2002. Order activity plunged 46.4 percent from December's level and 20.1 percent from January 2009's count.

"The very low order activity was not unexpected. When fleets took advantage of open build slots in late 2009, we knew this activity would take away from planned orders in the new year," said FTR President

Eric Starks. “We continue to expect a soft first half, but believe some demand will slowly return late in the year.”

Read the entire article: **http://www.progressiverailroading.com/prdailynews/news.asp?id=22522**

AAR Updates

Railroad industry weathers recession; faces serious policy challenges

Association of American Railroads President and CEO Edward R. Hamberger reported on February 18, 2010 that freight railroads are at a critical point in their history as the industry is facing new challenges from over-burdensome federal regulatory mandates that could seriously undercut the industry's ability to aid in U.S. economic recovery.

At a press briefing marking the release of a report titled Great Expectations: Railroads and U.S. Economic Recovery, Hamberger said that while freight railroads have been able to weather the economic downturn, they stand to face even more difficult times.

"Freight rail is the only mode of transportation that is almost entirely self sustaining," Hamberger said, noting that as the recession continued through 2009, freight railroads invested approximately $9 billion upgrading and modernizing the nation's rail network. "We sustain a healthy national rail system with private capital and we also deliver tremendous public, economic and job benefits to American businesses and consumers."

Every one freight rail job supports another 4.5 jobs elsewhere in the economy

According to the AAR report, freight railroads generate nearly $265 billion in total annual economic activity, and directly or indirectly support more than 1.2 million U.S. jobs. Every one freight rail job supports another 4.5 jobs elsewhere in the economy, the report said.

Additionally, country's privately owned freight railroads provide the literal foundation for the Obama Administration's vision for high-speed and intercity passenger rail. Today, more than 90 percent of Amtrak's operation moves on track rights-of-way owned by freight railroads; with the exception of a few express rail lines, the federal government's plan for high-speed rail envisions sharing track with freight.

A healthy rail network [is] critical to the nation's recovery

"Railroads face new policy initiatives that could hamper our ability to meet the great expectations America now has for rail to aid in our economic recovery," Hamberger said. "Select legislative and regulatory proposals are creating an air of uncertainty at a time when there is already too much of that. When so much is riding on freight rail's ability to sustain a healthy national rail network necessary to help America through to economic recovery, now is not the time to undermine our financial viability."

Hamberger pointed out that costly federal mandates and regulations could have a direct and negative impact on businesses and consumers in the form of higher costs for goods and services.

"What's more, policies that weaken the industry's ability to attract investors could threaten high-paying American jobs with freight rail companies, as well as those jobs connected to the railroads in areas such as housing, manufacturing, retail and agribusiness," he added.

Policies that weaken the industry's ability to attract investors could threaten high-paying American jobs with freight rail companies

Great Expectations: Railroads and U.S. Economic Recovery is an AAR analysis report that examines the freight railroad industry's contribution to the U.S. economy, and includes statistical data on the industry's progress throughout the economic downturn. It also provides an analysis of key policy initiatives in Washington, their potential impact on the industry, and possible solutions.

Visit the AAR to learn more at:
http://www.aar.org

Railroad Traffic

AAR reports traffic remains down in January 2010

The Association of American Railroads (AAR) February 10, 2010 reported U.S. carloads for the month of January 2010 were down 0.7 percent at 1,056,684 carloads, compared with the same month last year, and down 17.7 percent compared with 2008. The *Rail Time Indicators* report, available at www.aar.org, comprises monthly rail traffic data framed with other key economic indicators to show how freight rail is tied to the broader U.S. economy.

January's intermodal traffic, which includes movement of truck trailers and shipping containers, was up slightly at 2.5 percent to 803,275 units compared with January 2009, but down 11.2 percent compared with the same month in 2008.

Thirteen of the 19 commodity categories tracked by AAR saw year-over-year gains from January 2009

Thirteen of the 19 commodity categories tracked by AAR saw year-over-year gains from January 2009, with nonmetallic minerals seeing the highest gain, up 65.9 percent. The motor vehicles and parts category also saw a significant monthly boost, up 65.7 percent compared with January last year. However all commodity categories, with the exception of grain mill products, were down in January when compared with the same month in 2008.

For the first time, AAR also is providing seasonally adjusted U.S. rail traffic in the Rail Time Indicators report, using January 1988 - December 2009 as the basis for the seasonal adjustment. Seasonally adjusted carloads in January were up 2.6 percent from December 2009, and were the highest of any month in the past 11 months. "Seasonal adjustment is designed to improve month-to-month comparisons and eliminate seasonal components that can mask underlying trends," said AAR Senior Vice President John Gray. "While our seasonal adjustment process is subject to further refinement, we're confident that seasonally-adjusted rail traffic figures will be a useful complement to our other data and will help further illustrate the importance of railroads to the broader economy."

Visit the AAR at:
http://www.aar.org

Industrial Inside

North American railroads will require 19.4 million new wood ties in 2010, down slightly from 2009 purchases

The baseline scenario that RTA has projected for the next four years contains a fair measure of optimism, with caveats, even if the immediate outlook for 2010 is not as robust as one would wish it to be

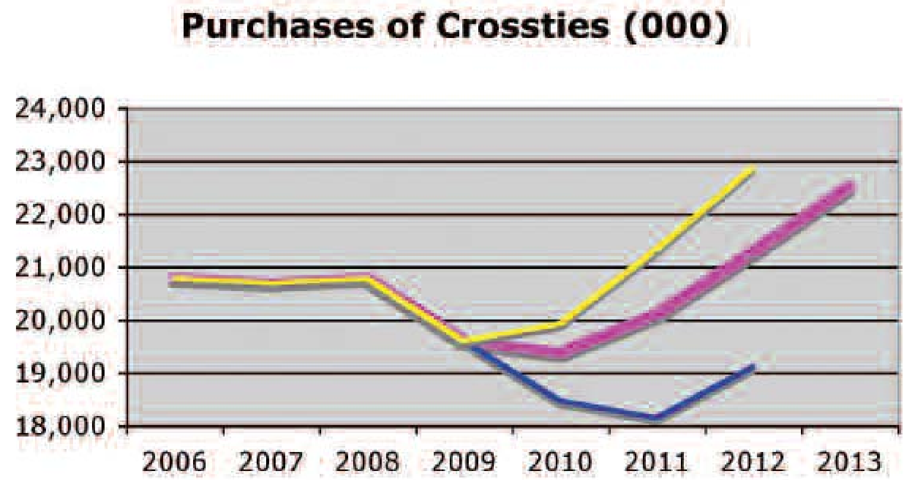
For those who have read this year's forecast article for tie demand it is apparent that the future holds great things for both railroads and crosstie suppliers. The baseline scenario that RTA has projected for the next four years contains a fair measure of optimism, with caveats, even if the immediate outlook for 2010 is not as robust as one would wish it to be.

Still, the forecast does project that 2010 tie demand will suffer only mild softening from 2009. The final tally for 2009 is that 19.6 million new wood ties were purchased by all railroad market segments. The forecast for 2010? North American railroads will require 19.4 million new wood ties. Not a significant difference. This bears further inspection. As previously noted, RTA has settled onto the Standard and Poor's forecast for the U.S. economy as being one of the most reliable models available for use in forecasting future US GDP. Thus, RTA used S&P's baseline forecast as the basis for the assumptions built into RTA's econometric model's forecast of tie demand. S&P Chief Economist David Wyss wrote in the Jan. 5, 2010, issue of *The Outlook* that S&P's "baseline forecast assumes a gradual recovery after a few quarters of bouncing along the bottom, which [will make the recovery look] like a stretched out 'U'…[and believing] that the imbalances in the world and U.S. economies will keep [future] expansion slow."

Out of this modest U.S. GDP forecast the RTA model forecasts a tie demand of 19.4 million ties for 2010, as previously stated. So, if the baseline forecast seems conservative and produces relatively stable tie demand, what does the pessimistic forecast suggest? In a double-dip "deep recession" forecast, Wyss assumes that the "financial markets freeze up again…oil prices rebound to triple digits…consumer and investor confidence weakens further, keeping the economy in recession until late 2010…stock prices drop back near their March [2009] low, and a deeper downturn in Europe and Japan keep [U.S.] exports low." If that happens, what occurs in the tie demand forecast? Well, surprisingly, not as much as one might think. Yes, the market softens as freight traffic on railroads erodes further, but tie demand only drops another 5.9 percent in 2010 and only 1.6 percent in 2011.

All in all, not too bad, and potentially survivable for most, if not all, tie suppliers. Plus, the recovery in 2012 sees tie demand back near 2009 levels. No one is suggesting that tie producers would wish this upon themselves.

However, if one had an option as to what business to be in, in a deep recession scenario, crosstie manufacturing versus other industries like auto manufacturers or homebuilders, most bets would be placed on business owners opting for ties. Maybe Warren Buffet does know a thing or two when it comes to recession-proofing his portfolio.



Maybe Warren Buffet does know a thing or two when it comes to recession-proofing his portfolio

What about the upside potential in an optimistic outlook, is it even a remote possibility? To follow Wyss' thinking here, one would need to count on "an improving housing market (something that seems to be showing life in some places right now)…better consumer and business confidence, an improving job market, stronger growth abroad (ditto)…and a more rapid calming of the financial markets…[coupled with] a revival in productivity increases…[and a bounce back in] consumer spending…[to] help reduce the current strains on the U.S. economy."

That's a lot of things that need to go right to produce an optimistic outlook. But, were it all to occur as suggested, a rosier prognosis emerges. In this upbeat scenario, tie demand increases in 2010 by 300,000 ties, bounds to 21.3 million in 2011, and approaches 23 million in 2012 (Table 3). RTA members, however, appear to favor the more middle-of the road baseline scenario from what *Crossties* has learned. *Crossties* contacted several members to ask what they felt 2010 held in store for their businesses.

Once things do begin to loosen up and logs begin to flow, then the question remains: How many sawmills will be operating and in a position to answer the call for more ties?

Based on this uncertainty, RTA has built into its 2010 plans a potential shortfall of anywhere from 700,000 to 1 million ties based on projected demand. Thus, the optimism facing even a middle- of-the-road approach to forecasting tie demand is offset to a degree by lingering concerns for the supply base. Under these circumstances it looks like 2010 may be one of the most daunting years the industry has faced in quite a while.

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Though a struggle may ensue for raw material, the very bright side of the equation is that railroading appears the place to be now and in the future.

Read the entire article at:
http://www.rta.org/Portals/0/Documents/Crossties%20Magazine/Jan%20Feb%2010/Looking%20to%20the%20Future%20Jan%20Feb%2010.pdf

Bernanke lays out plan for tighter money

Bernanke says the U.S. economy still needs the support of easy money policies

Currently, the Fed holds $2.29 trillion on its balance sheets, up from $934 billion in September 2008

"Reverse repos and the deposit facility would together allow the Federal Reserve to drain hundreds of

Financial Focus

Federal Reserve Chairman Ben Bernanke unveiled a blueprint February 10, 2010 for pulling back the trillions of dollars the central bank has provided to prop up the nation's economy.

"These programs, which imposed no cost on the taxpayer, were a critical part of the government's efforts to stabilize the financial system and restart the flow of credit," Bernanke wrote in testimony for a Capitol Hill hearing that was postponed due to snow. "As financial conditions have improved, the Federal Reserve has substantially phased out these lending programs."

But Bernanke also emphasized that the U.S. economy still needs the support of easy money policies. He wrote that "at some point" in the future the Fed will "need to tighten financial conditions" by raising short-term interest rates and reversing programs that pumped liquidity into the markets.

The markets have been waiting to hear an inkling of how the Fed plans to start raising rates and pulling back on the trillions the Fed has pumped into the financial system since it started teetering on the edge of collapse back in late 2008.

For the last 18 months, the Fed has bought mortgages, long-term Treasurys and the debt of mortgage finance firms Fannie Mae (FNM, Fortune 500) and Freddie Mac (FRE, Fortune 500).

Currently, the Fed holds $2.29 trillion on its balance sheets, up from $934 billion in September 2008, when the financial crisis really kicked into gear.

Bernanke laid out a plan to sell some of those mortgages, Treasurys and debt, by offering what's called reverse repurchasing agreements. Under those agreements, the Fed sells its securities to a third party while agreeing to rebuy them at some point in the future.

The second way the Fed plans to soak up money is to sell banks and financial firms the equivalent of certificates of deposit. In this case, the Fed gets a chunk of the bank's reserves in exchange for paying interest at a steady rate. Dubbed a "term deposit facility," these deposits would be auctioned off and banks couldn't count their investment in the Fed as cash or reserves.

"Reverse repos and the deposit facility would together allow the Federal

billions of dollars of reserves from the banking system quite quickly, should it choose to do so"

Reserve to drain hundreds of billions of dollars of reserves from the banking system quite quickly, should it choose to do so," Bernanke wrote.

Bernanke said he planned to start testing out such programs this spring, but he added that the "firming" of exit strategy policy would start with an increase in the interest rate paid on reserves, adding that the Fed could always take a more "rapid exit," by increasing the rate paid on reserves if the economy needed it.

In the beginning of February the Fed left interest rates unchanged at near zero percent, pointing to improvement in business spending but adding the recovery is likely to be "moderate" for some time.

But one member, Kansas City Fed President Thomas Hoenig, voted against the Fed's latest statement, saying he thought economic conditions had improved enough so that the Fed should not be promising low rates for an "extended period." He was the first dissenting vote among Fed policymakers since January 2009.

Learn more at:
http://money.cnn.com/2010/02/10/news/economy/fed_unwinding/index.htm?postversion=2010021012

The Edge

Welcome to March, *in like a lion and out like a lamb!*

Reminds me to check the stimulus spending to see where the money has gone....

Let's see, according to a report by the Associated General Contractors of America, "Agencies vary in how quickly they have spent construction funds under the stimulus legislation that President Obama signed on February 17, 2009. The EPA said that as of January 28, EPA assistance agreements had been executed for $3.6 billion (94%) of the Clean Water State Revolving Fund (SRF) Recovery Act dollars and $1.7 billion (93%) of the Drinking Water SRF funds. The Federal Highway Administration in a February 1 memo, shows that states and territories had obligated $23.8 billion (90%) of the $26.4 billion available for highways and had paid out $6.0 billion (23%). The Energy Department reported on January 25 that it had awarded $25.2 billion (77%) of its $32.7 billion but had spent only $2.1 billion (6%). The President announced awards to 31 states totaling $8 billion for rail projects on January 29, but no contracts had been signed."

..... in like a lion and out like a lamb!

We may be seeing a slight uptick as January 2010 rail carloadings are only down 0.7% from January 2009. It appears when one looks at the trend lines that we're hovering near the bottom of the economic transport floor. The biggest single commodity impact comes from coal with rail carloadings being down around 12%. To give one a feel for this impact coal is about 47% of total originated carloads for all U.S. railroads. Despite a cold and long winter many stockpiles and more strictly managed inventories didn't allow for a buildup in surplus coal supplies.

Take note of Federal Reserve's actions as noted above. There's a real quandary between "easy money policies" and stagflation. I think we're already getting indicators of the later thru selective price increases (many are much needed) and cost(s) of money. The real key is access to funds for the free market economy that has a solid business plan with enough strength to make good on its' obligations.

We continue to be very busy working with clients that are either shoring up their resources, looking for opportunities or taking advantage of the times to review methods of operations to better match must haves against wants. Ironically with the Warren Buffet investment we anticipate many private equity firms taking a harder look at rail industry related investments.

If we can be of assistance or simply answer your questions please don't hesitate to call upon us.

We look forward to earning your business!