Touchbase

MARCH 2012

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"Next year, cities and their metro areas will generate 90.4 percent of our Gross Domestic Product and 85.6 percent of the nation's jobs. Our local areas are the engines of the U.S. economy and investment in our future is an investment in the nation's future prosperity"

The AAR said the upgrades will include

Railroad & Policy Updates

The nation's mayors renewed their call for enactment of job-creating bipartisan transportation legislation now pending in Congress.

In a letter signed by 188 U.S. mayors including conference leaders, the mayors urged the House and Senate to enact bicameral, bipartisan surface transportation reauthorization legislation.

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In addition to urging passage of the measure, mayors also reiterated their strong opposition to a pending House bill that proposes to shift gas tax revenues away from public transportation.

"As mayors, we urge adoption of final bipartisan legislation that provides adequate funding, at least at current levels with an adjustment for inflation, to help us invest in needed transportation infrastructure and preserves the fundamental elements of current law. As such, this explains why we so strongly oppose the pending House proposal to redirect existing federal gas tax commitments away from public transportation, undermining years of bipartisan support in Congress for balanced investment in our nation's highway and transit systems."

Mayors also warned of the transportation projects that would be halted and the subsequent job losses that would result from inaction.

"There is a significant demand for major transportation now, at a time when construction is less costly and the resulting jobs are so urgently needed in our local and regional economies. The current extension expires March 31, and the Highway Trust Fund runs out of funds next year. If Congress does not address these challenges, the potential consequences for the nation could be devastating."

"As mayors, we believe it is crucial that bicameral, bipartisan surface transportation legislation move forward to help us accelerate the financing of highway and transit infrastructure, create well paying jobs and help get our economy back on track," the letter concluded.

Read more at: http://www.rtands.com/newsflash/u.s.-mayors-press-for-passage-of-bipartisan-transportation-bill-5096.html

AAR Announces Record Investment for 2012

The American freight rail industry will experience one of its greatest years for capital investment, according to a recent report by marketwatch.com.

intermodal terminals that support truck-to-train cargo delivery, new track, bridges and tunnels, modernized safety equipment, new locomotives and rail cars, and more

The Association of American Railroads (AAR) announced a plan to invest $13 billion in 2012 to expand, upgraded and enhance the national freight rail network. The investment total of $13 billion is a record high mark. In addition to improving the railroad infrastructure, it is projected that that 15,000 rail employees will be hired in 2012. According to AAR President, R. Hamberger, "These investments help businesses get their goods to market more efficiently and affordably, so they too can innovate, invest and hire. That's how freight rail spurs the American economy and supports jobs all across the country."

Railroad investment has been on an upward trend the last several years. Railroads spend 17% of annual revenue on capital expenditures, which is significantly higher than the 3% average among U.S. manufacturers. Railroad investments include building intermodal terminals, new track, and bridges, as well as modernizing equipment.

Improvements to railroad infrastructure translates into faster and more efficient, affordable shipping for American goods and products

Record breaking investments in the railroad industry is great news for freight rail and the nation's economy as a whole. Improvements to railroad infrastructure translates into faster and more efficient, affordable shipping for American goods and products. As the railroad industry continues to improve, more manufacturers will turn to rail to ship their goods. Hopefully this announcement is the beginning of a positive year for the railroad industry.

Learn more at: **http://www.railroad.net/aar-announces-record-investment-for-2012-318.html**

Mechanical Brief with Steve Christian

Railroad damage on plant property: Procedure for documenting damage done on plant property

Class I Railroads and their customers have a relationship that is very unique. Usually customer satisfaction drives the relationship between the customer and a service provider. With the Class I Railroads, not so much!

Here at Tealinc, we're honored to have many customers with plants served by Class I railroads. While many of the customers have railroad switch crews switching their trains during day and night hours, some customers have switch crews working during the day only. Unfortunately, most of these plants grant Class I unrestricted access to the plant at all hours.

In a recent event, the plant switch crew came on duty during the day and found that the railroad switch crew had delivered cars after hours and pushed more cars onto the plant transfer track than the track was capable of holding. The result: Destruction of the track stop and the lead set of trucks landing on top of the remnants of the stop. Of course the railroad switch crew made no report of the incident and they might not have even known that they caused this damage. My belief is that the railroad made a blind push of the cars on the track without anyone watching the lead. As matter of protocol, we're pleased to inform you that in this instance, the plant personnel followed strict protocol in resolving the scenario and I commend them on a job well done.

Should you ever encounter yourself in

Should you ever encounter yourself in a similar circumstance, follow this simple procedure:

a similar circumstance, follow this simple procedure

1. Immediately reported the damage to your plant management
2. Remove and move nothing
3. Take digital pictures to record the damage and the position of the derailed car
4. Provide proof as evidence to the Class I as to what you found
5. Get the Trainmaster out to view the damage
6. Don't lose sight of the damage to the rack and stop. The railroad should be made aware of this damage and rebilling the railroad is certainly in order. Put the Trainmaster on the spot!
7. If the railroad accepts responsibility for the damage, ask the trainmaster to get his mechanical personnel in to re-rail the car and make temporary repairs to the car for movement or make final repairs if possible
8. If temporary repairs are made ask the railroad to issue a defect card per AAR Field Manual Rule 102 to cover the basic damage
9. Send the car to a contract shop and have them prepare a JIC and estimate to cover all damage in detail and take digital pictures per AAR Rule 103 and handle directly with the railroad for endorsement. By having the shop handle directly with the railroad you are assured that you will not miss the time limits for JIC preparation, etc.
10. Be sure the contract shop copies you on all correspondence with the railroad
11. Once endorsement is received, get the car scheduled for repair
12. In some cases, the railroad will pay the bills directly. In other cases you pay the shop and rebill the railroad. I would advise the shop billing the railroad directly scenario. It saves a lot of extra work on your part.

Due diligence on this process is the key to success. Tealinc stands ready to assist you!

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*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

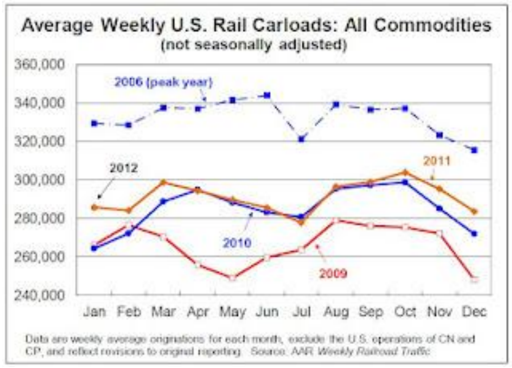
AAR recognizes gains for freight traffic January 2012

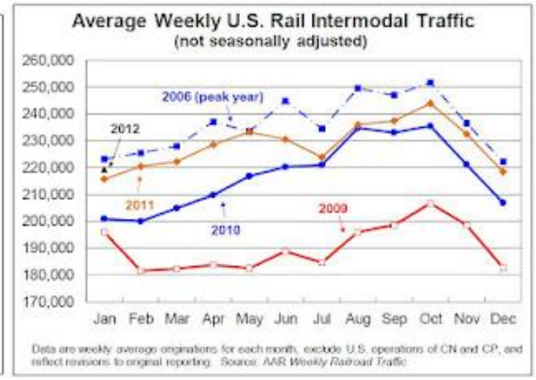
The Association of American Railroads (AAR) reported February 4, 2012 that total U.S. rail carloads originated in January 2012 totaled 1,144,800, an average of 286,200 per week and up 0.1 percent over January 2011.

Intermodal volume in January 2012 was 877,637 containers and trailers, up 1.7 percent over January 2011. January's average of 219,409 intermodal units per week was the third highest ever for a January for U.S. railroads.

"Total rail carload traffic in January was flat compared with last year, due largely to sharp declines in coal and grain traffic"

"Total rail carload traffic in January was flat compared with last year, due largely to sharp declines in coal and grain traffic," said AAR Senior Vice President John T. Gray. "However, a number of other commodity categories — including many that have historically been much more highly correlated with GDP growth than coal and grain—saw large increases in January. That's a sign that the underlying economy is probably stronger than you would think if you just looked at the rail traffic totals."





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Visit the AAR at:
http://www.calculatedriskblog.com/2012/02/aar-rail-traffic-increased-01-percent.html

Industrial Inside

January imports rose amid economic recovery, rising demand from steel users

U.S. steel imports in January 2012 jumped 20.2 percent from a year earlier amid a strengthening economy and rising demand from steel users. "Beginning last fall, the trend lines for the U.S. steel market all pointed up and prices rose, capacity was returned to the market, and now, after the normal lag for non-NAFTA imports, healthier import levels have also have arrived," said David Phelps, president of the American Institute for International Steel.

Statistics "help confirm the continued slow improvement in the U.S. economy and the steel market, supported by demand in the oil and gas, heavy equipment, auto and industrial goods sectors"

Phelps said the statistics "help confirm the continued slow improvement in the U.S. economy and the steel market, supported by demand in the oil and gas, heavy equipment, auto and industrial goods sectors. While some of the improvement clearly is seasonal, we remain optimistic about near-term trends."

January imports totaled 2.545 million tons, including 486,000 tons of semi-finished products. Total imports were up 23.3 percent from December.
Steel imports in 2011 rose 18.9 percent year-over-year, according to the Commerce Department.

Read the article at:
www.aiis.org/downloads/.../imports%20in%20January%202012.docx

Financial Focus

"Risks remain that developments in Europe or elsewhere may unfold unfavorably and could worsen economic prospects here at home"

Fed to keep rates low until 2014

Fed said it intends to keep interest rates low until the end of 2014, a move that signals the central bank fears the economy will not recover fully for another three years

The recovery remains "frustratingly slow" in the United States, and now Europe's debt crisis is posing additional challenges, Federal Reserve Chairman Ben Bernanke told Congress in February.

"Risks remain that developments in Europe or elsewhere may unfold unfavorably and could worsen economic prospects here at home," Bernanke told the House Budget Committee.

But he also assured lawmakers that the Fed is doing everything in its power to prevent an economic slowdown in the U.S.

"We are in frequent contact with European authorities, and we will continue to monitor the situation closely and take every available step to protect the U.S. financial system and the economy," Bernanke said. Europe's debt problems started in Greece more than two years ago, and the situation there has yet to be fully resolved.

Repeating points he has made before Congress in prior appearances, Bernanke told the committee members that while cutting the national debt should be a priority over the long term, they should also take great care not to impede the current economic recovery.

"Do no harm is an important piece of advice I would offer you," Bernanke said.

Rep. Scott Garrett, a Republican from New Jersey, slammed Bernanke for giving Congress advice on how to fix the struggling housing market. The Fed is in charge of monetary policy, and Republicans have critiqued Bernanke for overstepping his bounds by giving its opinion on fiscal matters.

"I was truly taken aback when just recently, as you know, the Fed issued in an unsolicited white paper on housing policy where if you didn't advocate for, you certainly mirrored much of the positions of this administration," Garrett said.

"Well, Congressman, first the Fed has a lot of interest in housing. It's important for the economy. It's important for monetary policy," Bernanke said.

"We were trying to provide pros and cons, analysis, background. I'm sorry if you think we went too far," he added.

The House hearing comes a week after the Fed said it intends to keep interest rates low until the end of 2014, a move that signals the central bank fears the economy will not recover fully for another three years. The Fed also laid out a goal to keep inflation around 2% each year, while it also tries to bring down the unemployment rate.

Many Republicans, including Rep. Paul Ryan, oppose the move, fearing it could trigger rapid inflation later on.

"I think this policy runs the great risk of fueling asset bubbles, destabilizing prices and eventually eroding the value of the dollar," Ryan

The Fed forecast: the unemployment rate will remain high in 2012, ending the year between 8.2% and 8.5%; U.S. gross domestic product will expand by only 2.2% to 2.7% this year

said. "The prospect of all three is adding to uncertainty and holding our economy back, in many of our judgments."
While Ryan commended Bernanke for the Fed's recent efforts to increase its transparency, he also pressed him on the inflation question.

Bernanke responded, "We are not seeking higher inflation. We do not want higher inflation and we're not tolerating higher inflation."

The Fed forecasts the unemployment rate will remain high in 2012, ending the year between 8.2% and 8.5%. It also cut its predictions for growth, forecasting U.S. gross domestic product will expand by only 2.2% to 2.7% this year.

Learn more at:
http://money.cnn.com/2012/02/02/news/economy/bernanke_congress_europe/index.htm

The Edge

The railroads coal transportation dilemma. Consider these statements of fact as reported by the Association of American Railroads (AAR) and the Energy Information Administration (EIA).

Coal carloads for the year-to-date period ending 12/31/2011 for the cumulative 52 weeks ended up .3 percent (3/10's of one percent) from 2010 for a total of 6,749,436 U.S. Railroad carloads (source: AAR)

From a macro viewpoint one would ascertain that coal demand, both export and domestic, is driving production and resulting originated carloads. All looks well for the railroads hauling coal. When one takes a more recent look into 2012 figures we see that coal production has fallen like a rock.

U.S. year-to-date coal production thru the week ended February 18, 2012 totaled 143.0 mmst, 3.4 percent lower than the comparable year-to-date coal production in 2011 (source: **www.eia.gov**).

So what has happened to coal demand?

One could determine that it's a multitude of factors such as a warm winter, resulting in lower burn rates and more plentiful stockpiles being realized from lower volume electricity sales, faster turn times for railroads due to the same cooperative weather factor (one railroad we talked with reported record setting paces on coal equipment not seen since the 1980's when the set count was 60% of today's set count), less export demand due to the European debt crisis or the encroachment of an alternative fuel.

A micro view would confirm that portions of all these factors play into the decrease in coal transportation demand however the one overriding variable is the significant increase in the use of natural gas for base electricity generation.

Look at the two charts below. The first is a long range historical trend line of natural gas price futures and the second a more recent price chart of natural gas price futures (source: CME). The recent price chart is telling of what has happened to coal demand. Natural gas pricing has decreased in the neighborhood of 40% in the past two months. The oil shale drilling in the US has helped support economic growth in many arenas but has also released a competing commodity to coal resulting in a surplus of natural gas in quick order.

Sure natural gas is cheap but how does that effect coal usage?

Many utilities have natural gas peaking units in place for peak winter and summer electricity demand. Natural gas peaking units are easier to start and stop (take off and bring online) than base load coal units. Coal units are designed to be base load units (e.g. to constantly run). However natural gas is a cheap enough fuel source for many utilities to consider mothballing or decommissioning fringe base load coal units and to ramp up the use of natural gas peaking units to base load units. These mothballed coal units consist of those that primarily require some type of significant investment for EPA compliance issues, such as scrubbers, etc. The loss of or slow down in use of these fringe base load coal units directly impacts the demand for domestic steam coal. In addition to loss of base load fringe units it appears that scheduled outages for regular base load units are being moved up to accommodate the current coal supply and demand situation. The result is even less nearby demand for US steam coal.
Despite the domestic coal market being in the doldrums the export market continues to support a floor in coal rail transportation demand. Europe, China, India and Korea continue to buy US coal.

How do we quantify the railroads coal transportation dilemma?

Our most recent coal set count on three Class I railroads indicate that there are 295 coal sets currently parked due to lack of coal transportation demand. Reported turn times due to less sets in service, cooperative weather, historical infrastructure improvements and the continued integration of more fuel and transportation efficient locomotives are setting records across many Class I railroads. To generalize the effect of the coal dilemma switch many utilities in the fourth quarter of 2011 went from hand wringing single days of coal stockpile inventory to more recent times in first quarter of 2012 having 30-40 days of coal on hand.

The railroads are already acting according to the situation. They are cascading less desirable long haul locomotives out of the fleet and replacing them with more fuel and operationally efficient locomotives, human resources are being redeployed to other types of traffic (crude trains, grain, intermodal, etc.) and I'm sure a hard look is being taken at the capital improvement budget.

For the non-coal shipper that requires exemplary service I'm betting you can pretty much count on it. The extra resources are in place it's now just a matter of execution. Be sure to plan accordingly.

We look forward to earning your business!