Touchbase

May 2013

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Visit us at:
www.tealinc.com

Congratulations to our outstanding 2013 Scholarships Applicants!

KCS announces Memorial Day service reduction

CSX announces three new events for order placement and repair track

Tealinc Announces Scholarship Winners!

Tealinc is pleased to award three Scholarships to spring 2013 applicants! Tealinc is an adamant supporter of post-secondary education providing over $15,000 in scholarships at the local level over the past several years.
Click on each scholarship winner to learn more about him or her.

- Tanner Glaza
- Shannon Castello
- Mary Hallman

Congratulations and best wishes for success in your many endeavors!

Railroad & Policy Updates

The Kansas City Southern Railway Company will reduce forces on May 27, 2013 in observation of Memorial Day. Through train service will continue over the weekend. Industry service requests for these days should be emailed to Customer Solutions or faxed to 816-983-1555 by 10:00 a.m. on Wednesday, May 15, 2013.

Service requests will not guarantee service on the day requested. Once all requests are received, the local operation will attempt to secure resources to perform service. If no message is received, it will be understood that no service is needed.

Through train operations may also be reduced beginning May 26 through Memorial Day as volume dictates. Service requests are not necessary for through train service.

For More Information Contact Kansas City Southern Railway direct at www.kcsouthern.com

CSX Offers New Web Tools

Starting April 22, in our effort to continuously improve the ease of doing business with CSX, three new events for order placement and repair track moves will be provided when tracing rail shipments via ShipCSX, EDI 322 or CLM.
These new events are generated for:

- **Order Placed by Customer:** when a plant switch is submitted to request placement at industry for a constructively placed car.
- **Transferred to Repair Track:** when a bad ordered car has been sent to a track for repair.
- **Released from Repair Track:** after a car is released from bad order status, it is then released from the repair shop tracks, signifying that it will soon continue on to its destination.

For More Information Contact CSX direct at www.csx.com

“Freight railroads… are working diligently to be in an even better position in the future, to offer the safe, efficient, cost-effective service”

“Intermodal-specific investments… paid for with the railroads’ own fund, not government funds”

Demand for freight transportation will grow, both for intermodal trade and domestic resources, due to population and economic growth

AAR: Railroads Eye Future Panama Canal Traffic

Association of American Railroads (AAR) President and CEO Edward R. Hamberger on April 11, 2013 told the Senate Committee on Commerce, Science, and Transportation that freight railroads are positioning themselves to meet future transportation demands in this country, including those related directly and indirectly to the expansion of the Panama Canal.

The expansion project is designed to double shipping capacity via the Canal by 2015, and facilitate larger "post-Panamax" container ships to pass, overcoming current size constraints.

Said Hamberger, "The fact is, whether the freight is coming into or leaving from Long Beach or Savannah or Miami or Houston or Seattle or Norfolk or any other major port, our nation's freight railroads are in a good position now, and are working diligently to be in an even better position in the future, to offer the safe, efficient, cost-effective service that their customers at ports and elsewhere want and need."

Hamberger said rail intermodal shipments are growing thanks to major private capital investments railroads have been making in equipment and facilities to improve efficiency, reliability, and productivity for intermodal rail customers. The rail industry has seen a rise in intermodal volume from 3.1 million containers and trailers in 1980 to 12.3 million units in 2012.

Despite the negative effects of the Great Recession, America's freight railroads have been reinvesting more than ever before, Hamberger said. These private investments include $25.5 billion in 2012 and roughly the same amount is projected for 2013.

"Intermodal-specific investments are a part of the $525 billion in investments freight railroads have made since 1980 – paid for with the railroads' own funds, not government funds – on locomotives, freight cars, tracks, bridges, tunnels and other infrastructure and equipment," said Hamberger. "Intermodal is a key market segment for each of the major U.S. freight railroads, and each has devoted significant resources toward expanding their intermodal capabilities to keep supply chains fluid and effective."

Hamberger noted that many analysts project the demand for freight transportation will grow, both for intermodal trade and domestic resources, due to population and economic growth. This further supports the need for investments in rail intermodal and rail carload capacity. "Railroads are the best way to meet this demand," Hamberger said. "Railroads are safe, save fuel, keep trucks off the overcrowded highways, and reduce greenhouse gas and other emissions. And they do it while providing affordable, reliable transportation to America's manufactures, farmers, energy producer, retailers, and consumers."

Read the entire article:
http://www.railwayage.com/index.php/intermodal/aar-railroads-

eye-future-panama-canal-traffic.html?channel=48

Mechanical Brief with Steve Christian

Turbocharged locomotive not ideal for low speed switching operation

I visited a plant recently to inspect some railcars that had been modified. I noticed that their only locomotive was sitting dead (not running) on a side track in the middle of the day. It was an EMD GP road unit. I asked my contact what was up with the dead locomotive. He told me that the turbo had gone out on the engine and they were waiting for a rebuilt one to arrive. In the meantime they had a loaner locomotive from a nearby plant. He also told me that the turbo goes out every couple of years and they have to scramble to switch cars at the plant while the locomotive is down. I have a feeling this tragedy is felt in many switching applications. What a waste.

EMD diesel engines are two stroke meaning there are no intake valves. Air enters the combustion chamber through ports in the cylinder liner when the piston drops below the ports. The air is either forced into the cylinders by a Roots blower or a Turbocharger. The Roots blower is a gear driven supercharger that is driven directly by the engine. The faster the engine revs, the greater the volume of air that is forced into the cylinders.

Sounds like a great idea but not for most plant applications

Like the Roots blower the Turbocharger also forces combustion air into the cylinders. The difference is that it uses the engine's exhaust is used to power the air pump/compressor at higher throttle applications. At lower throttle applications, a clutch is engaged and the engine drives the air pump/compressor. That sounds like a great idea especially in these days of high diesel prices. It is a great idea, but not for this and most plant's applications. Most of these types of operations (low speed switching) never get to the higher throttle applications so the benefits of the turbo charger are never realized. The other negative for using turbo charged locomotives in this type of service is that they don't get worked hard enough to blow out and burn out all the junk that flows through it. There are also screens that need to be cleaned regularly. The bottom line is that the cost of maintenance and the rate of replacement are much greater with a turbo as opposed to a Roots blower. To add insult to injury, you don't even realize any fuel savings because the clutch is always engaged and the engine is providing the power.

If you already use a locomotive with a turbocharger for low speed switching service you can get a reputable locomotive mobile repair service to pin the turbocharger's clutch so it is permanently engaged

Here are the morals of this story:

1. If you need a locomotive for a low speed switching operation, do not get a locomotive with a turbocharger!
2. If you already have a locomotive with a turbocharger and use it for low speed switching service you can:
    a. Do nothing and plan on spending thousands every few years for a replacement turbo, hours spent cleaning screens and switching delays.
    b. Get a reputable locomotive mobile repair service to pin the turbocharger's clutch so it is permanently engaged.
    c. Trade in your turbo charged locomotive for a Roots blown locomotive that matches your low speed type of service.

Tealinc stands ready to assist you in determining the best course of action for your particular switching situation.

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 mixed rail traffic for March, declines from week ending March 30

The Association of American Railroads (AAR) March 30, 2013 reported that U.S. monthly rail traffic showed mixed results in March 2013, while both carloads and intermodal traffic declined for the week ending March 30, 2013.

Intermodal traffic in March 2013 totaled 933,208 containers and trailers, up 0.5 percent (4,859 units) compared with March 2012. That percentage increase represents the smallest year-over-year monthly gain for intermodal since August 2011.

Carloads originated in March 2013 totaled 1,117,427, down 0.5 percent (5,969 carloads) compared with the same month last year. While it was a decline, March had the lowest year-over-year monthly dip in carloads since January of 2012. Carloads excluding coal and grain were up 3.4 percent (19,965 carloads) in March 2013 over March 2012. Seven of the 20 major commodity categories tracked on a monthly basis by AAR saw year-over-year increases in March 2013 over March 2012.

March had the lowest year-over-year monthly dip in carloads since January of 2012

Commodities with the biggest carload increases in March included petroleum and petroleum products, up 54.3 percent or 19,295 carloads; crushed stone, gravel and sand, up 11.9 percent or 8,380 carloads; motor vehicles and parts, up 6.1 percent or 4,127 carloads; and coke, up 11.4 percent or 1,550 carloads. Commodities with carload declines last month included grain, down 20.1 percent or 16,971 carloads; coal, down 2 percent or 8,963 carloads; metallic ores, down 13.2 percent or 2,908 carloads; and chemicals, down 1.3 percent or 1,581 carloads.

“U.S. rail traffic continues to mirror the overall economy: not great, not terrible, anticipating a better future,” said AAR Senior Vice President John T. Gray. “Petroleum and petroleum products continue to lead traffic gains, while coal and grain have seen better days. Intermodal volume in March was up just 0.5 percent over last year, but it was still the highest-volume March in history and built on even stronger gains earlier in the quarter.”

AAR today also reported declines in rail traffic for the week ending March 30, 2013. U.S. railroads originated 281,367 carloads last week, down 1.9 percent compared with the same week last year, while intermodal volume for the week totaled 233,587 units, down 3.8 percent compared with the same week last year. Total U.S. traffic for the week ending March 30 was 514,954 carloads and intermodal units, down 2.8 percent over the same week last year.

A decrease in weekly carload traffic was led by grain

Three of the 10 carload commodity groups posted increases compared with the same week in 2012, led by petroleum products, up 55.6 percent. The groups showing a decrease in weekly traffic were led by grain, down 27.4 percent.

For the first 13 weeks of 2013, U.S. railroads reported cumulative volume of 3,570,874 carloads, down 3 percent from the same point last year, and 3,084,916 intermodal units, up 5.3 percent from last year. Total U.S. traffic for the first 13 weeks of 2013 was 6,655,790 carloads and intermodal units, up 0.7 percent from last year.

Canadian railroads reported 80,227 carloads for the week, up 0.5 percent compared with the same week last year, and 47,127 intermodal units, down 10.5 percent compared with 2012. For the first 13 weeks of 2013, Canadian railroads reported cumulative volume of 1,007,936 carloads, up 2.2 percent from the same point last year, and 660,535 intermodal units, up 4.4 percent from last year.

Mexican railroads reported 13,948 carloads for the week, down 6.3 percent compared with the same week last year, and 7,839 intermodal units, down 13.9 percent. Cumulative volume on Mexican railroads for the first 13 weeks of 2013 is 192,104 carloads, up 8.4 percent from the same point last year, and 118,373 intermodal units, up 0.9 percent from last year.

Combined North American rail volume for the first 13 weeks of 2013 on 13 reporting U.S., Canadian and Mexican railroads totaled 4,770,914 carloads, down 1.5 percent compared with the same point last year, and 3,863,824 trailers and containers, up 5 percent compared with last year.

Visit the AAR at: **https://www.aar.org/newsandevents/Freight-Rail-Traffic/Pages/2013-04-04-railtraffic.aspx**

Industrial Inside

Primary and secondary nonferrous metals: a soft patch

As the first quarter of the year draws to an end, it appears prices for most primary and secondary nonferrous metals are turning downward in response to less-than-encouraging economic reports from China and Western Europe.

The negative news appears to be overriding a moderately upbeat U.S. economic outlook.

The pessimistic tone replaces a more bullish outlook expressed by many scrap metal recyclers earlier this year. At that time, scrap metal dealers said they felt that after China's Lunar New Year holiday concluded, buyers for Chinese consumers would return to the market.

The earlier optimism also was fueled by a feeling that China's incoming administration would inject significant capital into the economy, which would result in a spurt of infrastructure investments. The net result would be a boost for many base metals, including a range of nonferrous grades.

With this in mind, some nonferrous scrap exporters had been going after more scrap supplies to capitalize on a resurgent China market.

While the Chinese government could still spur infrastructure investments, boosting metals prices, a number of factors could keep downward pressure on primary and scrap metals.

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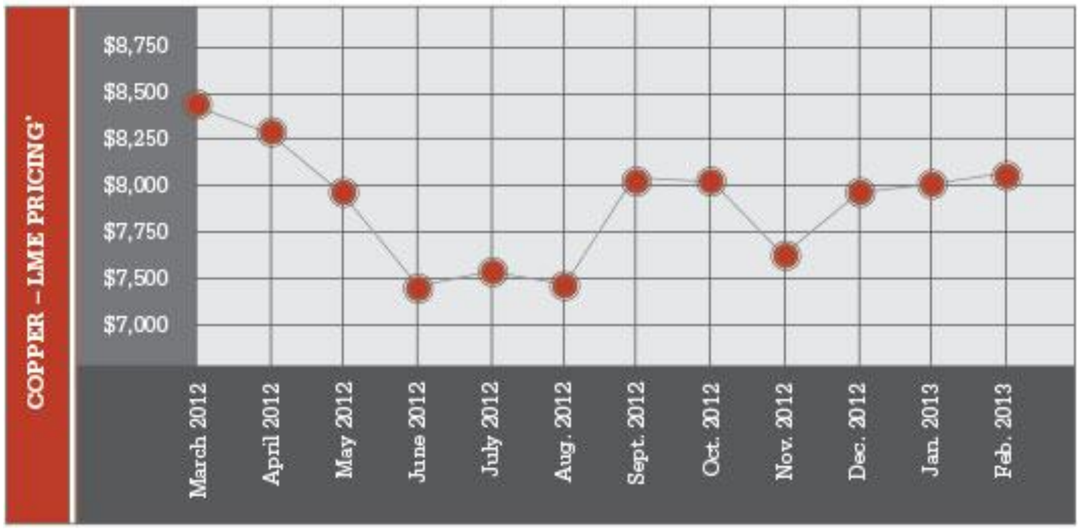

According to a Reuters report, China's State Reserves Bureau purchased 300,000 metric tons of aluminum and 45,000 metric tons of zinc in the middle of March. The move, according to several sources, is an attempt to halt the slide in finished aluminum prices, which have fallen to a multiyear low, as well as to stabilize zinc prices, which have fallen to the lowest level since late 2012.

Despite these purchases, multiple sources report that a significant percentage of the aluminum smelters throughout the world are operating at a loss, including a large percentage of Chinese aluminum smelters. More capacity may be removed from the market during the next several quarters in response.

Deripaska: Global commodity producers needed to cut output by up to 10 percent to bring the market back into balance

Oleg Deripaska, the CEO of Moscow-based Rusal, the world's largest aluminum company, recently said global commodity producers needed to cut output by up to 10 percent to bring the market back into balance. In fact, earlier this month Rusal announced plans to cut its aluminum output by 300,000 metric tons by the end of 2013.

During the recently concluded Middle East Metals Recycling Conference, Regina Crespo with St. Louis-based Metals Exchange, provided an outlook for aluminum markets. In her presentation, she said that going forward, North America and Europe would face the challenge of keeping available aluminum scrap in their domestic markets. These buyers would be confronted with strong demand from China and other emerging markets, she said. However, Crespo added, "China will still grow and play a dominant role in the industry, but the big boom is over."

Regarding copper, a Reuters report notes that prices on the London Metal Exchange (LME) posted a 4 percent decline in February, squelching what some felt would be a rally earlier in the year. According to one report, the lack of growth in Europe, along with uncertain economic conditions in other regions, could result in an oversupply of copper through 2013.

Read the entire article at:
http://www.sdbmagazine.com/rt0413-nonferrous-scrap-prices.aspx

Financial Focus

US economy sees broad growth

The US economic recovery broadened in 2012, with every part of the private sector except for agriculture adding to growth, according to figures from the Bureau of Economic Analysis.

Real value added in construction rose for the first time in eight years as the housing market began to bounce back and finance made its first contribution to growth for two years.

The data suggest the US economic recovery is becoming more diverse and resilient ahead of growth figures for the first quarter, due on April 25, that are expected to show an annualized increase of 3 percent.

The biggest contribution to 2012 growth of 2.2 per cent came from manufacturing, which chipped in 0.71 percentage points of the total, according to the figures on gross domestic product by industry.

BEA figures break the economy down into types of activity – such as consumption and investment – but once a year it also publishes figures that cut the economy into industrial sectors as well.

Numbers show that 2012 was mainly a year of cyclical recovery with strong bounce in output of durable goods

Those numbers show that 2012 was mainly a year of cyclical recovery with a strong bounce in output of durable goods. However, wholesale and retail trade together chipped in 0.5 percentage points of growth, finance and real estate added 0.43 percentage points, and construction contributed 0.11 percentage points.

The broadening of the economic recovery is one reason for hope after a disappointing run of data in March that has raised fears of the economy suffering another "spring slowdown".

First-quarter GDP growth for March will be ignored even more than usual by markets, because not only is the first estimate vulnerable to large revisions, but the apparent weakness at the end of the quarter makes it a poor guide to where the economy will go next.

"It should be a pretty solid number – I've got 3.3 per cent," said Jim O'Sullivan at High Frequency Economics in New York. "But we certainly don't think the trend is necessarily 3.3 per cent."

A large part of growth in the first quarter is likely to come from restocking warehouses. Running down stock contributed to extremely weak annualized growth of 0.4 per cent in the fourth quarter of 2012.

The number to look for on April 26 is “final sales of domestic product”, which measures actual sales to US consumers and businesses, excluding inventories, and is a better guide to the underlying health of the economy.

Mr. O’Sullivan: “mistake to extrapolate too much from weak data in March because at least part of it may reflect a swing from an unseasonably mid winter to an unusually dreary spring

“The final sales part will probably be not much more than 2 per cent,” said Mr. O’Sullivan. “Even a part of that will be an unwinding of effects from the drought.”

However, Mr. O’Sullivan said that it would be a mistake to extrapolate too much from weak data in March – there have been bad figures on jobs growth, retail sales, durable goods orders and business confidence – because at least part of it may reflect a swing from an unseasonably mild winter to an unusually dreary spring.

“The unemployment claims numbers especially have been very encouraging the last few weeks,” he said. Claims fell back to a seasonally adjusted 339,000, similar to levels at the start of March, suggesting that the month may have been a blip. “Overall, the economy’s hanging in here OK,” said Mr. O’Sullivan.

Joseph LaVorgna, chief US economist at Deutsche Bank in New York, said the GDP figure should be good but was best treated with caution ahead of revisions to the data expected this summer.

“I would focus on the general mix in growth,” he said. “I think you’re going to see a pretty good final demand number.”

“I would focus on the general mix in growth… I think you’re going to see a pretty good final demand number”

Mr. LaVorgna said that the long years in which growth has remained stuck at about 2 per cent had left markets skeptical about any upturn.

“What investors are missing, right now, is we are in the midst of what should be a pretty powerful housing recovery which is more diffuse than they believe,” he said.

Learn more at:
http://www.ft.com/intl/cms/s/0/83532ef2-adc1-11e2-82b8-00144feabdc0.html#axzz2RVY0Cw3m

The Edge

We’ve been involved with a lot of development projects that involve either putting new production on rail or expansion of current production. There’s always some phenomenon going on in the rail world that creates challenges for these types of projects.

Remember back to when coal shipments dropped off in late 2011/2012 and there were (still are) a few hundred sets of coal cars parked. Along with these coal sets are surplus of locomotives creating a turn-back of leased power and fewer overall train sets running (e.g. significantly reduced volume) and more human resources (crews) available to haul general service freight. You’d think that with a reduction of some 93,000 carloads (AAR statistics comparing 4 weeks ending March 30, 2013 with the same time frame in 2011) railroads would be extremely hungry for new higher margin business. Well they are!

Crude oil trains have become the new rail transport phenomenon. Over the same time frame that the coal business was falling off a cliff crude oil was gaining a rail foothold. Consider that the increase in crude oil by rail is up some 107% or around 28,371 carloads for the same time frame while coal is falling off some 93,000 carloads. When you dig into the economics of shipping crude by rail versus pipeline one finds two interesting facts. First it's cheaper to ship crude by pipeline than rail, not surprisingly, and second rail provides more flexibility. Various destinations and this flexibility have created enough additional value that rail carriers can charge a higher price than a pipeline and business is flourishing.

Circling back to my first sentence concerning development projects that we're working on, we find that in dealing with railroads, particularly on service and price, one needs to best understand where the railroads are coming from. Shippers generally think ", hey the railroads have surplus assets so they should be extremely hungry for my business!" In contrast the railroads have become masters at shedding operating costs and being able to adjust to volume and type of products to be transported. They also have been studying the shipper and commodities markets to understand the value proposition of shippers and I believe are testing the age old, the next best transport option cost versus rail will get the business theory. The success of this approach is evidenced by being able to charge more for crude oil shipments on a per barrel basis than a pipeline can deliver. This approach is also being tested on many other commodity groups.

As a shipper of a product this means that you need to:

- Fully understand your rail price and service options from a rail carrier perspective
- Build in as much flexibility as possible to your shipment patterns and options
- Manage daily shipments across the rail network
- Create multiple rail and alternative transport modes as the business will allow
- Expect to pay more for infrastructure and shipments costs across rail networks - even those with competitive transport options

We're excited to help you evaluate your logistics chain and we look forward to your call.

We look forward to earning your business!