Touchbase

MAY 2007

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Union Pacific Railroad and Norfolk Southern Railway are teaming up to speed eastbound intermodal trains from Los Angeles to the Southeast

CN officials believe the railroad is "well positioned to take advantage of growing markets for ethanol, wood pellets and biodiesel fuel"

Railroad Updates

The Union Pacific Railroad and Norfolk Southern Railway are teaming up to speed eastbound intermodal trains from Los Angeles to the Southeast. On May 21, the Class I's will shift domestic container traffic from the Memphis, Tenn., gateway to a new Shreveport, La., gateway.

Combining UP's L.A.-to-Texas Sunset Route with NS' and Kansas City Southern's joint venture Meridian Speedway line between Shreveport and Meridian, Miss., the new route is nearly 150 miles shorter than the current one.

The route will enable UP and NS to shorten standard service to Atlanta by one day to fifth-morning availability; provide BlueStreak premium service to Atlanta on the fourth afternoon; schedule L.A. cut-off times to later in the day so more shipments can depart on an evening train; originate all eastbound domestic shipments from UP's L.A. intermodal terminal; and speed other Southeast destinations.

The railroads plan to shift westbound domestic service to the faster Shreveport gateway in the third quarter. NS and UP will continue to route international traffic via the Memphis gateway.

Read the entire article:
http://www.progressiverailroading.com/prdailynews/news.asp?id=10601

CN Sets Alternative Fuels Strategy to Boost Biodiesel, Ethanol Carloads

CN officials believe the railroad's U.S. and Canadian franchise is "well positioned to take advantage of growing markets for ethanol, wood pellets and biodiesel fuel," according to a prepared statement.

The Class I's rail network has access to the Midwestern Corn Belt, where most of the United States' ethanol is produced. CN also can provide corn farmers direct access to ethanol producers in Ontario, officials said.

In addition, CN serves two biodiesel facilities in Iowa and will serve additional facilities proposed in the U.S. Midwest, and has direct access to export terminals on the Pacific, Atlantic and Gulf coasts to serve growing wood pellet markets.

"Industries and consumers throughout North America and overseas are increasingly looking to alternative fuels to reduce energy costs, fuel-related emissions and greenhouse gases," said CN Executive Vice President of Sales and Marketing James Foote.

Read more at:
http://www.progressiverailroading.com/prdailynews/news.asp?id=10604

A.A.R. published changes to its Open Top Loading Rules Manual

Shippers and railroad carriers are taking steps to address infrastructure and capacity improvements that will be necessary to meet the projected 40- to 70-percent rail volume growth expected by 2020

AAR Updates

On April 16th the A.A.R. published a circular announcing the following changes in its published Open Top Loading Rules Manual. In order to utilize gondolas with end bulkheads and loading smaller sizes of product, the AAR specifies that:

> All packages loaded above the car sides must be 10ft less in length then inside length of the cars and centered at origin. *On gondola cars equipped with end bulkheads higher than the car sides, packages may be full length of car provided they do not exceed the height of the bulkheads.*

Contact Tealinc directly for additional loading rule changes or you may contact the A.A.R. at **www.aar.org**.

STB stokes rail infrastructure dialogue

As U.S. railroad capacity becomes more constrained, shippers and railroad carriers are taking steps to address badly-needed infrastructure and capacity improvements that will be necessary to meet the projected 40- to 70-percent rail volume growth expected by 2020.

To help facilitate the discussion, the Surface Transportation Board (STB) held a public hearing in April—Ex Parte No. 671, Rail Capacity and Infrastructure Requirements—to provide a forum for views and information concerning freight traffic forecasts, capacity constraints, and the infrastructure investment needed to ensure the freight rail system will be efficient and reliable enough to handle the influx.

While much has been made of the railroad carriers' proposed $9.4 billion investment into infrastructure improvements and capacity enhancements over the course of 2007, the STB was quick to point out that this funding alone will not meet the rail transportation needs of the U.S. economy. This sentiment is upheld in recently-introduced legislation that reached the Senate floor which proposes a 25 percent tax credit for businesses that make investments in new rail infrastructure.

At the hearing, shippers, rail carriers, and industry associations, submitted comments that represented various opinions and approaches in terms of how the capacity and infrastructure issues on the rails should be handled. The current situation for shippers, according to William M. Mohl, vice president of commercial services for Entergy Services Inc. is bleak.

In his testimony, Mohl lamented the fact that the quality of rail service has "deteriorated to levels where shippers…cannot count on the railroads' commitment to deliver in accordance with contract commitments." And a bigger problem for shippers, according to Mohl, is that although railroads contend they are making significant

"It is imperative that railroads be required to build appropriate infrastructure to competitively and reliably serve the needs [of shippers] both now and in the future at reasonable rates and with reasonable service guarantees and appropriate oversight"

While shippers say outlook is bleak, industry watchdogs contend that fair pricing and follow through on proposed investment could go a long way in making vital improvements

infrastructure investments, there are still myriad service and pricing issues that are not being effectively addressed.

"It is imperative that railroads be required to build appropriate infrastructure to competitively and reliably serve the needs [of shippers] both now and in the future at reasonable rates and with reasonable service guarantees and appropriate oversight," said Mohl.

Mohl's call for infrastructure improvement is supported by a report from the American Association of State Highway and Transportation Officials (AASHTO) that was cited frequently throughout the hearing. The AASHTO report predicts that by 2020 the U.S. rail system will carry an additional 888 million tons, a 44 percent increase. A similar report published by the DOT expects freight traffic to rise by 67 percent in the same timeframe.

This projected increase in freight traffic, coupled with the current infrastructure and capacity limitations, is "an interesting phenomenon," says William J. Rennicke, director of Mercer Management Consulting. "The railroads had excess capacity for years. And even with issues regarding service, performance due to mergers, and downsizing of miles through the Staggers Act, there was more [capacity] than needed until 2002 or 2003."

Regardless of the news that major U.S. railroads are expected to spend heavily this year on capacity and infrastructure improvements, Rennicke said shippers still have more questions than answers. "Is there going to be enough capacity? And what is the ultimate impact of this for the shipping community?" asks Rennicke. He also raises the question of whether railroads will set prices to drive away a certain segment of their business and force shippers to pay more as demand for rail service grows.

Fair pricing, the expected investment, and the implementation of the proposed 25 percent tax cut could improve capacity, infrastructure, and service, and could go a long way in making the needed improvements on the rails, says Tom O'Connor, vice president of Snavely King Majoros O'Connor & Lee Inc. an economic and management consultancy.

"The railroads could do themselves a favor by acting with more moderation in their price increases and price setting," said O'Connor. "There is not an infusion of new highway capacity coming in to meet the projected freight increases, and rail is the only other alternative in place that can reach population centers across the country 12 months out of the year. This is what makes the case for these types of railroad [capacity] investments."

Read more at:
http://www.logisticsmgmt.com/article/CA6438521.html?industry=Rail%2FIntermodal&industryid=2029

Railroad Traffic

Both carload freight and intermodal volume were down on U.S. railroads during March compared to same time last year

Both carload freight and intermodal volume were down on U.S. railroads during March in comparison with the same month last year, the Association of American Railroads (AAR) reported.

U.S. railroads originated 1,310,037 carloads of freight in March 2007, down 3.4 percent from March 2006. Intermodal rail traffic, which consists of trailers and containers on flat cars and is not included in carload figures, totaled 908,109 units in March 2007, down 1.4 percent compared with March 2006.

For the first three months of 2007, total U.S. rail carloadings were down 4.9 percent, while intermodal traffic was up 0.2 percent. Total volume was estimated at 419.2 billion ton-miles, down 3.6 percent from 2006.

Of the 19 major commodity categories tracked by the AAR, 15 saw carload declines in March.

Overall freight transportation demand is down a bit

"U.S. rail carload traffic dipped in March 2007 compared to a strong March 2006 because overall freight transportation demand is down a bit," noted AAR Vice President Craig F. Rockey. "The low demand for building products (in part because of housing weakness), difficult times for the auto industry, and severe spring snows and flooding in the West which halted coal mining have left their mark on rail volumes. The increase in intermodal traffic in the first quarter marked the 20th straight quarterly increase for intermodal."

Chemicals, nonmetallic minerals up

The biggest bright spot for U.S. rail traffic in March 2007 was chemicals, which were up 5.8 percent. Carloads of nonmetallic minerals in March rose 13.7 percent. On the down side, severe winter storms out West helped pull down coal volumes by 1.8 percent in March, while carloads of metallic ores fell by 39.8 percent. Carloads of motor vehicles and equipment were down 7.7 percent in March 2007, while carloads of grain fell 5.6 percent.

Coal, metallic ores, motor vehicles, grain down

For the first quarter of 2007 on U.S. railroads, carloads of chemicals were up 2.1 percent, while carloads of petroleum products were up 4.6 percent. Most other commodity categories were down, including motor vehicles and equipment (down 13.7 percent); crushed stone, sand, and gravel (down 13.0 percent); and grain (down 7.7 percent.) Sixteen of the 19 major commodity categories tracked by the AAR saw carload declines in the first quarter of 2007 compared with the first quarter of 2006.

Combined cumulative volume for the first 13 weeks of 2007 on 13 reporting U.S. and Canadian railroads down 4.5 percent from last year

Combined cumulative volume for the first 13 weeks of 2007 on 13 reporting U.S. and Canadian railroads totaled 5,107,665 carloads, down 4.5 percent (238,771 carloads) from last year; and 3,507,045 trailers and containers, up 0.3 percent (11,581 trailers and containers) from 2006's first 13 weeks.

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http://www.aar.org

Global demand for steel puts price at a premium

Analysts have been forecasting steel prices as high as $600 in May

“Demand in other global regions is very strong, and there are higher prices there compared to the US market”

Industrial Inside

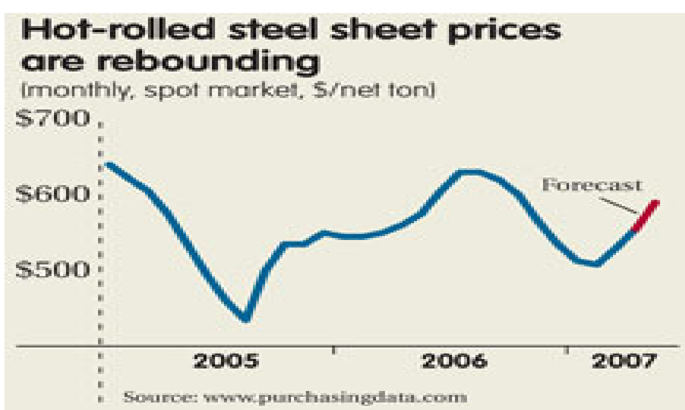
Global demand for steel is high, due in part to major construction projects in developing countries such as India, Thailand and especially China, where the 2008 Beijing Olympics, 2010 Shanghai World Exposition and construction of housing keep work crews busy. But while China is an outsized consumer of steel, it is also a major steel producer. In March, China set a monthly record by producing 40.16 million tons of steel, according to that country's National Bureau of Statistics.

For American steelmakers, production is also robust, though below last year's peak. In February, U.S. steelmakers shipped 6.5 percent less steel than in February 2006. However, steel shipments for use in construction were up 2.2 percent year to year.

With both supply and demand running high, adequate supplies of steel should soon be available, steel industry figures say.

Sheet steel prices have moved upward from $508/ton in February and probably will be around $600 June—which won’t be as high as the $640/ton the mills have targeted.

The analysts have been forecasting as high as $600 in May based on what Aldo Mazzaferro of Goldman Sachs in New York pins to “short supply, rising global prices and a lack of imports.” Actually, he and other analysts suggested that April transactions on hot-rolled steel sheet would fall within a wide range of $540 to $580 per ton and elevate to a span of $580 to $600 in May. In contrast, Purchasingdata.com projected a sales-price average at $555 in April, rising to $580 in May.



In reality, the average calculated for April deliveries in the latest survey of buyers at manufacturing plants and processing distributors is $555 as higher scrap prices indeed are pushing steel prices upward. However, early buys for deliveries in May have averaged $590/ton, or $10 over the original Purchasingdata.com estimate.

The sales prices for April and May may have been skewed somewhat by a thin market. North American demand has been anemic all year and many end-user and service center buyers have remained on the sidelines with more than enough inventory. “Second quarter demand remains soft in the timeframe that typically is the year's strongest quarter,” says analyst Timna Tanners at UBS Securities in New York. And, given soft market conditions, she writes in a note to clients, “many buyers may believe the recent rebound for hot-rolled coil pricing is undeserved.”

Still, higher offshore prices—averaging $600 in Europe—continue to discourage imports into the U.S. market. “Demand in other global regions is very strong, and there are higher prices there compared to the US market,” says Mazzaferro. “Those are the major reasons for the import-supply reductions in the U.S.”

“The real test of the current steel market will likely come in the softer summer season”

“It’s a strange market,” admits Tom Moseley, vice president of sales at the MST Steel Corp. distributorship in Warren, Mich., “since demand doesn't seem that strong but increases in shredded steel scrap prices of more than $80/long ton since January are causing mills to all announce price increases for March and April.” And that has resulted in buyers grousing that the mills aren’t paying attention to supply-demand realities and that many service centers aren’t doing enough to keep price tags down. “Demand for carbon steels is soft (yet) little downward pressure is being exerted on the mills to contain them by the metals service centers,” says the steel buyer at the Chicago manufacturer of diagnostic radiographic equipment.

“Whether the mills realize the full amount of announced price increases is not entirely clear,” writes analyst Randy Cousins at BMO Capital Markets in Toronto. “The cross currents in the North American steel market are numerous (with) soft demand from select key sectors, excess inventories juxtaposed against falling imports and supplier discipline.” As he points out, “in the bad old days (before intense Internet-driven scrutiny of the steel market), the steel companies would announce price increases that would often fail.” So, they would just raise prices again and again. “The real test of the current steel market will likely come in the softer summer season,” suggests Cousins.

Learn more at:
http://www.purchasing.com/article/CA6424298.html?display=readersChoice and
http://www.sfgate.com/cgi-bin/article.cgi?f=/c/a/2007/05/02/BUGLEPJ1A31.DTL

Financial Focus

Economy likely to 'pick up steam'

The U.S. economy grew modestly in the first quarter but should accelerate in the second half of the year, though a downturn would have ripple effects around the world, San Francisco Federal Reserve President Janet Yellen said April 28.

Yellen was speaking to the American Academy of Arts and Sciences and the American Philosophical Society. Enumerating the top current risks to stable economic conditions around the world, she said that in the U.S. economy "there is potential for a downturn that could have major spillover effects around the globe." The United States contributes roughly 25 percent to world economic output, she noted.

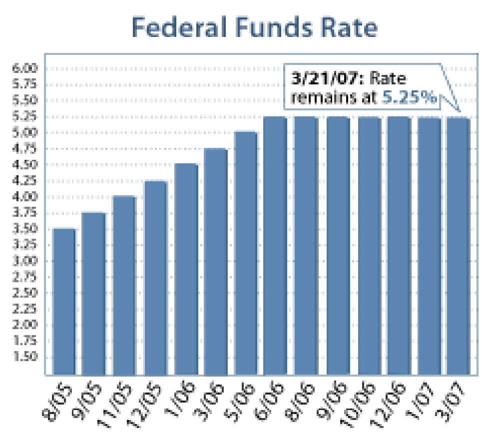
The U.S. economy expanded at a sluggish 1.3 percent in the first quarter of 2007, the Commerce Department said Friday, reflecting declines in the housing market and a pickup in inflation. It was the fourth consecutive quarter of sub-par growth in the world's largest economy.

"I do think there are downside risks to the American economic growth, but in spite of those risks I really think it is quite likely that the U.S. economy is going to pick up steam and revert back to trend growth before 2007 comes to and end," Yellen said.

Given "slightly elevated" levels of inflation, a period of subpar output will help dispel inflationary pressures, she added. In the event the U.S. economy experiences a downturn, other countries have economic policy tools to help cushion the impact, Yellen said. Such tools include the adoption of numerical targets for inflation at many central banks around the world, she noted.

The U.S. central bank does not use inflation targets but is discussing whether to adopt them.

Yellen said other risks to the global economy include large investment and savings imbalances and possible disruptions from the re-pricing of risks in international financial markets.



The Federal Reserve is pinned between slow growth, which would could call for lowering benchmark interest rates, and stubbornly elevated inflation, which would dictate raising rates. Fed officials have said that holding overnight borrowing costs steady at 5.25 percent, where they have been since June, will allow growth to pick up as inflation eases.

We'll wait until the Federal Reserve meets on May 9 to find out what conclusions they make on rate changes.

http://money.cnn.com/2007/04/28/news/economy/yellen_downturn.reut/index.htm?postversion=2007042818

Fed officials have said that holding overnight borrowing costs steady at 5.25 percent, where they have been since June, will allow growth to pick up as inflation eases

The Federal Reserve is pinned between slow growth, which would could call for lowering benchmark interest rates, and stubbornly elevated inflation, which would dictate raising rates

The Edge

I was in the security line at an airport last week and the lady in front of me removed her belt, then two necklaces, her earrings, a watch, her shoes before finally empting her pockets. It was only then, on her third attempt, when she was allowed through security. It was her words that stuck in my mind. "If I have to take any more off someone's going to have to buy me dinner".

Many of you (us) in the rail industry feel we're getting close to earning our dinner.

So how do we go about not getting stripped at the screener when the AASHTO report predicts that by 2020 the U.S. rail system will carry a 44 percent increase in tonnage and DOT expects freight traffic to rise by 67 percent in the same timeframe (see article this newsletter)? A continued and stepped up focus on public-private partnerships, tax incentives for rail reinvestment for both railroads and shippers, capital investment by all classes of railroads and shippers and a continued concentration by the railroads on "fair pricing" would be in our basket of available counter measures.

More importantly and closer to home, do what you can ***now***.   If you're in the shipping community and haven't located your industry, look to an area with dual rail access. If you are located, ask how you can better benefit from the operational perspective. Also take a look at the maintenance of way investments that railroads are making and see if your area is on their radar screen. From a macro perspective, if the railroad isn't investing in your lanes (or origin – destination area) you may be at a service (and price) disadvantage.

The rail industry has it's own screener just like any other business. It behooves your business to understand their rules so you make on to the radar screen.

We look forward to earning your business!