Touchbase May 2008

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NS new 'Pacesetter' tool aimed at providing shippers more control over their supply chains

CSXI fuel surcharge rises to 37.5 percent for May 2008

UP carload fuel surcharge will rise to 26.5 percent in May 2008

Railroad Updates

Norfolk Southern Corp. has released a new e-commerce tool aimed at providing shippers more control over their supply chains.

Thoroughbred Pacesetter, Norfolk Southern's new e-commerce service and the latest addition to the accessNS web portal, offers what the railroad says is an industry first: service-based demurrage, which directly links NS service to demurrage and storage credits, the method by which customers are charged for holding railcars beyond an agreed time limit. Credits are based on the original NS ETA (estimated time of availability).

Cars available a day or more ahead of or after the original NS ETA receive one additional credit for each day, whether early or late, up to a total of five credits per car. Shippers will be able to monitor these events, as well as debits and credits applied, and approve or dispute them through Pacesetter. Thoroughbred Pacesetter will become available to NS customers today, giving them a direct link to the railroad’s yard inventory and car reporting systems, "providing customers with more detailed, real-time visibility of shipments, and direct control over ordering and releasing railcars," NS says.

For more on this story, visit:
http://www.railwayage.com/breaking_news.shtml#Feature2-4-14

CSXI's, UP's Fuel Surcharges Rise Along With Diesel Costs

As diesel prices continue to skyrocket, can a 40 percent fuel surcharge be on the horizon? On May 6, CSX Intermodal will implement a 37.5 percent fuel surcharge for May. The company's April surcharge stood at 35 percent.

CSXI previously applied fuel surcharges of 29.5 percent in March, 26 percent in February and 27 percent in January. The drayage-only fuel surcharge for May will be 47 percent.

CSXI adjusts its surcharge the first Monday of each month based on the difference between the U.S. Department of Energy's (DOE) price index the previous Monday (in this case, April 28) and $1.10. CSXI calculates the percent difference between the DOE's "Retail Diesel Fuel Price Index" and $1.10, multiplies the figure by 10 percent and then again by 100. On April 28, the DOE reported a diesel retail price of $4.18 per gallon.

If the U.S. National Average Fuel Index equals or exceeds $2.79 per gallon, CSXI increases its fuel surcharge 0.5 percent for every four-cent increase in fuel price.

Meanwhile, Union Pacific Railroad's carload rate-based Highway Diesel Fuel (HDF) surcharge will rise from April's 21.5 percent to 26.5 percent in May and 28.5 percent in June. The rate-based standard HDF surcharge program is based on the DOE's U.S. average on-highway diesel fuel price.

Learn more at:
http://www.progressiverailroading.com/prdailynews/news.asp?id=16385

Rail a growth opportunity for manufacturers

An economic analyst for the Fabricators & Manufacturers Association International (FMA) believes one transportation mode presents a growth opportunity for manufacturers despite recent economic woes — rail.

"Although, in general, the transportation arena has been hit hard by the economic downturn and many traditional areas are in some distress, one surprise in this sector is the rail industry, with a solid expectation for growth given the realities of fuel costs,"

"Although, in general, the transportation arena has been hit hard by the economic downturn and many traditional areas are in some distress, one surprise in this sector is the rail industry, with a solid expectation for growth given the realities of fuel costs," said Chris Kuehl, the association's economic analyst, in a prepared statement.

Surging demand for food commodities will continue to be a boon for railroads, as will demand for cleaner burning coal, he said.

"In response, the major freight rail operations are discussing expansion and the need to buy more rail cars, specialized yard equipment and even the rail itself," said Kuehl.

Read the entire article:
http://www.progressiverailroading.com/prdailynews/news.asp?id=16347

Rail Car Market

Slow economy will restrict freight-car orders and production

After surging in 2007's final quarter, rail-car orders leveled off in 2008's first quarter, according to Economic Planning Associates Inc.'s (EPA) quarterly rail-car outlook report. Still, the 10,500 units ordered in the first quarter indicated the market still is going strong, and at March's end, backlogs totaled 65,200 units, EPA said.

However, the short-term implications of the sluggish economy are evident. In the first quarter, railroads and Lessors cancelled orders for 4,850 intermodal platforms, 1,250 tank cars and 920 high-cube covered hoppers, EPA said.

EPA predicts a pick-up in production of coal cars, Class F flat cars, Intermodal platforms and box cars will boost deliveries to 53,300 in 2010 and 56,300 in 2011. Deliveries then are expected to

Based on those cancellations, EPA has lowered its production estimates to 51,500 deliveries in 2008 and 49,800 in 2009.

Beginning in 2010, replacements of box cars, mid-sized and small-cube covered hoppers, and multi-level flat car fleets, as well as higher demand for center beams, high-cube covered hoppers, tank cars, intermodal equipment and coal cars will fuel orders. EPA predicts a pick-up in production of coal cars, Class F flat cars, intermodal platforms and box cars will boost deliveries to 53,300 in 2010 and

total 59,000 units in 2012 and 60,500 units in 2013

56,300 in 2011. Deliveries then are expected to total 59,000 units in 2012 and 60,500 units in 2013.

Learn more at:
http://www.progressiverailroading.com/prdailynews/news.asp?id=16358

AAR Updates

Legislation would create dual system of regulation for railroad industry; limit railroad industry's ability to invest and expand

Legislation passed by the House Judiciary Committee on April 30 would create a dual regulatory system for our nation's rail industry and retroactively undo agreements, decisions and rulings currently in effect.

“This legislation will severely hamper the ability of the nation's railroad industry to expand, and to deliver the goods and products our economy depends on,” said Edward R. Hamberger, president and CEO of the Association of American Railroads. “It will force more freight off the railroad and onto the highway, dramatically increasing pollution and traffic congestion.”

The legislation's retroactive nature would create tremendous economic uncertainty for the industry, causing the railroads to curtail robust expansion plans currently underway. This would result in tighter rail capacity and shift more freight to our nation's already overcrowded highways.

In addition, provisions that allow dual and potentially conflicting regulatory oversight could cause a “domino effect” of operational problems for freight and commuter railroads across the country. The Transportation Communications International Union, which represents approximately 46,000 railroad workers, said the legislation calls for “dual and possibly conflicting oversight of the railroads by the STB and the courts.”

“This could cause unwanted problems for the employees of the railroads including the members the TCU represents,” wrote the union in a letter to House Judiciary Chairman John Conyers.

Learn more at:
www.aar.org

AAR to hold '08 customer forum at NARS' San Francisco meeting

Forum held to allow shippers the opportunity to voice their concerns to Class I Railroad officers

For the fifth-consecutive year, the Association of American Railroads (AAR) is pleased to partner with the North American Rail Shippers Association (NARS) to sponsor this year's customer forum event as a component of the North American Railroad Shippers (NARS) Annual Meeting. The forum is held to allow shippers the opportunity to voice their concerns to Class I Railroad officers.

The Class I Chief Marketing Officers will participate in a Chief Marketing Officers' panel discussion that will be moderated by Edward

R. Hamberger, President and Chief Executive Officer of the Association of American Railroads. At the conclusion of the afternoon agenda, break-out sessions will be offered for individual customers and senior railroad officers to meet for informal discussions.

To learn more or register for the event, visit the AAR at:
http://www.aar.org/newsroom/nars2008.asp

Railroad Traffic

Carload and Intermodal freight down for March 2008

Both carload and intermodal freight were down on U.S. railroads during March, the Association of American Railroads (AAR) reported April 3, 2008.

Railroads originated 1,308,482 carloads of freight in March 2008, down 0.1 percent from March 2007, the AAR said. U.S. intermodal rail traffic, which consists of trailers and containers on flat cars and is not included in carload figures, totaled 856,404 units in March 2008, down 5.7 percent (51,705 trailers and containers) compared to March 2007.

For the first three months of 2008, total U.S. rail carloadings were up 1.1 percent while intermodal traffic was down 4.1 percent. Total volume was estimated at 431.5 billion ton-miles, up 2.3 percent from last year.

Coal and grain the bright spots for carload traffic on U.S. railroads during March 2008

Of the 19 major commodity categories tracked by the AAR, 12 saw carload declines in March. Coal and grain were the bright spots for U.S. rail traffic in March 2008. Carloads of coal were up 5.9 percent while carloads of grain were up 13.9 percent and carloads of chemicals in March were up 0.6 percent.

On the down side, a strike at a key automotive parts supplier, as well as reduced sales in the auto sector, helped pull down rail carloads of motor vehicles and equipment by 19.4 percent. Carloads of crushed stone, sand, and gravel were down 13.4 percent.

"…construction spending is down, which helps explain why carloads of crushed stone, sand, and gravel are down. Weak consumer spending and the weak dollar help explain why rail Intermodal volume is down… a fragile housing market has been negatively affecting rail shipments of lumber

"Recent disappointing economic news helps explain why rail traffic is not more robust," noted AAR Senior Vice President John T. Gray. "For example, the Department of Commerce recently reported that construction spending is down, which helps explain why carloads of crushed stone, sand, and gravel are down. Weak consumer spending and the weak dollar help explain why rail intermodal volume is down. And, of course, a fragile housing market has been negatively affecting rail shipments of lumber for quite a while. On the other hand, the weak dollar means U.S. exports are less costly overseas, which is helping boost U.S. exports of grain, coal, and other commodities."

For the first quarter of 2008 on U.S. railroads, carloads of coal were up 4.3 percent while carloads of grain were up 17.3 percent. Among the commodity categories that were down in the first quarter were motor vehicles and equipment (down 9.5 percent) and crushed stone, sand, and gravel (down 8.3 percent).

for quite a while"

"The weak dollar means U.S. exports are less costly overseas, which is helping boost U.S. exports of grain, coal, and other commodities"

Nine of the 19 major commodity categories tracked by the AAR saw carload increases in the first quarter of 2008 compared with the first quarter of 2007.

Canadian carload rail traffic in March 2008 was down 7.7 percent due largely to sizable declines in carloads of motor vehicles and equipment (down 22.7 percent); lumber and wood products (down 36.4 percent, and grain (down 14.1 percent). Canadian intermodal traffic in March 2008 was down 2.7 percent over March 2007 to 182,157 trailers and containers.

Combined cumulative volume for the first 13 weeks of 2008 on 12 reporting U.S. and Canadian railroads totaled 5,124,297 carloads, up 0.4 percent (22,594 carloads) from last year; and 3,413,019 trailers and containers, down 2.7 percent (93,208 trailers and containers) from 2007's first 13 weeks.

Meanwhile, thanks to strong increases in loadings of coal and grain, carload freight was up on U.S. railroads during the week ended April 19 in comparison with the corresponding week last year, the Association of American Railroads (AAR) reported on April 24.

Carload freight in the week ended April 19 up 1.5 percent from last year. Volume was up 2.5 percent in the West and 0.3 percent in the East. Intermodal volume, which is not included in the carload data, was off 3.2 percent from a year ago while trailer volume was down 2.4 percent and container volume declined by 3.4 percent.

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

Industrial Inside

Soaring steel and fuel prices are leading to increases in construction costs

Soaring steel and fuel prices are leading to increases in construction costs, according to Ken Simonson, chief economist for the Associated General Contractors of America (AGC).

"Red-hot steel prices, combined with record diesel fuel costs, are making construction unaffordable," Simonson says, commenting on the producer price indexes (PPIs) for March reported today by the Bureau of Labor Statistics (BLS).

"The PPI for inputs to construction industries—materials used in all types of construction plus items consumed by contractors, such as diesel fuel—soared 2.1 percent in March alone," Simonson observes. "That jump was propelled by a staggering 24-percent increase in diesel fuel costs and a 5.5-percent rise in prices for steel mill products."

"Steel suppliers have been burning up the fax wires announcing huge

Simonson says he sees more of the same for the foreseeable future. "Steel suppliers have been burning up the fax wires announcing huge price increases and canceling previous quotes. And the Energy Information Administration reported last night that the average price of highway diesel crossed the $4 per gallon mark in all regions for the price increases and canceling previous quotes"

first time, with a 10-cent increase in the national average just in the past week, to $4.05 per gallon. These figures won't show up in the producer price index until next month, but contractors are paying them now.

"Public agencies as well as private owners need to adjust to these realities," Simonson continues. "Too many of them are still assuming construction costs are rising no faster than the consumer price index (CPI), when in fact the PPI for construction inputs has gone up 6.5 percent in the past 12 months and 34 percent since steel prices first surged in December 2003. That is more than double the run-up in the CPI."

Total construction spending in the U.S. fell 0.3 percent in February, according to statistics released by the U.S. Census Bureau. The February 2008 figure is 3.5 percent below the estimate for the same month last year.

During the first two months of 2008, total construction spending was $155.1 billion, 2.6 percent below total spending for the same period in 2007.

Private residential and nonresidential construction both posted declines in February, residential construction coming in at a seasonally adjusted annual rate of $456.9 billion, 0.9 percent below the January estimate, while nonresidential construction also fell 0.1 percent compared to January while public construction spending increased 0.4 percent from January, with highway construction increasing 0.9 percent over January's estimate.

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Read more at:
http://www.cdrecycler.com/

Ferrous scrap pricing consider "through the roof"

RMDAS Ferrous Scrap Pricing: Through the Roof

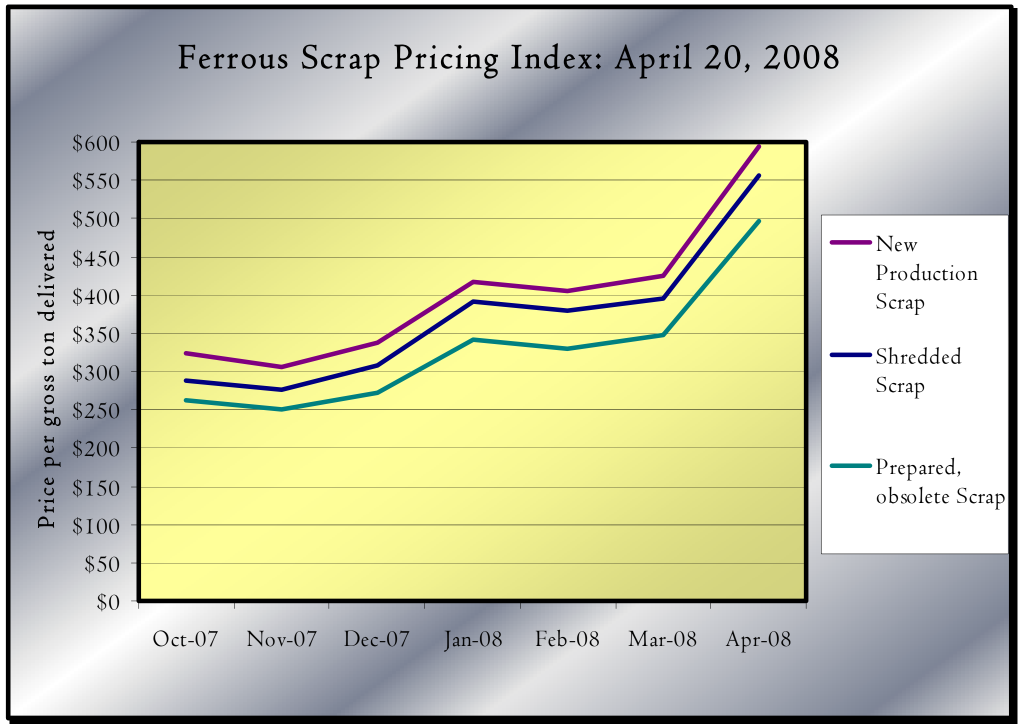
If mill buyers thought they were dealing with high prices in the first quarter of 2008, the second quarter started out by making those prices seem like "the good old days" of sub-$500 scrap

If mill buyers thought they were dealing with high prices in the first quarter of 2008, the second quarter started out by making those prices seem like "the good old days" of sub-$500 scrap.

Buyers on the April spot market ran into per ton price increases of from $150 to $170 per ton, depending on the grade and region. Regional aggregated spot market prices compiled by Management Science Associates (MSA), Pittsburgh, through its Raw Material Data Aggregation Service (RMDAS), show mills paid in a range of from $576 to $599 per ton for the new production scrap used to define the RMDAS Prompt Industrial Composite grade.

While #1 Heavy Melting Steel (HMS) and Shredded Scrap traded in a lower range, pricing for those grades also moved up by $150 to $160 per ton in April compared to March.

Regionally, buyers in the North Midwest region faced the highest prices, with mills paying an average of $599 per ton for prompt industrial grades and $514 per ton for #1 HMS. Buyers in other regions may have paid a few dollars per ton less, but nonetheless faced record pricing that moved in a huge leap beyond what was being paid 30 days previously.



The scope of the bull market was the topic of a session at the ISRI (Institute of Scrap Recycling Industries Inc.) 2008 Annual Convention in early April. At the event's Ferrous Commodity Spotlight session, speakers from across the steel and ferrous scrap spectrum offered their insight into factors shaping the current market.

Steel industry analyst Aldo Mazzaferro of Goldman, Sachs & Co., New York, remarked that even with the economic slowdown, "U.S. steelmaking is short of capacity" to serve the domestic market, which is why steelmakers are charging $1,000 per ton for hot-band and $850 per ton for rebar.

American steelmakers are producing at about 90 to 92 percent of capacity, so "there's really not much else to squeeze out of U.S. mills," according to Mazzaferro. Additionally, the weak dollar is not making the U.S. a preferred market for imported steel, meaning "essentially there is a bidding war for imported steel."

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John Harris, a metallic's buyer for ArcelorMittal based at one of its Canadian locations, remarked that scrap dealers in the United States are benefiting from the weak dollar. "No steel is coming in here [and] scrap is leaving at a faster rate because it's a good buy anywhere in the world."

And while the booming economies of China and India are well known for their steel and scrap consumption, Harris also noted that the Middle East is playing a role. Oil-based economies there have "$1 trillion of infrastructure projects on the books for the next 10 years,

Global steel industry predicted to continue enjoying strong pricing for at least the next two quarters

and it's all paid for. Guess what that does for [steel and scrap] demand?" Harris asked attendees.

Harris predicted that the global steel industry will continue to enjoy strong pricing for at least the next two quarters.

He was not as certain that ferrous scrap is in an overall shortage situation, remarking that a "Russian reservoir" built up during 50 years of large-scale Soviet steelmaking and virtually no exporting means there is still scrap to be obtained. Recyclers there are just now starting to tap into this reservoir, according to Harris. "The system there is finally getting 'greased' to do [scrap] collection. They're blowing and going over there."

U.S. to remain "materials short"; recyclers will continue to experience healthy demand for products

Long-time shredding equipment supplier Alton Scott Newell Jr. of The Shredder Co. LLC, Canutillo, Texas, offered a prediction that the world will remain "materials short" for some time, meaning recyclers will continue to experience healthy demand for their products.

While steel industry consolidation is taking hold, Newell is less certain that the scrap industry can consolidate in the same way. If steelmakers are buying scrap assets with the premise that they will be able to obtain scrap at a lower cost, he warned them that this "doesn't work." He remarked that new competitors come into the recycling and shredding industry much more readily, as there is a lower barrier to entry compared to steelmaking.

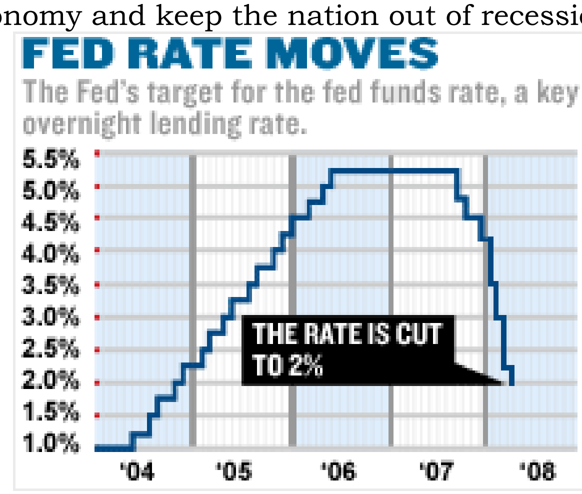
Read more at:
http://www.cdrecycler.com/news/news.asp?ID=3748

Financial Focus

Federal Reserve drops federal funds rate to 2 percent

The Federal Reserve cut its key interest rate by a quarter percentage point April 30, but the central bank's statement signaled it may be the last rate cut for at least a while.

The cut took the federal funds rate, the key overnight rate at which banks loan money to one another, to 2%. It had been at 5.25% as recently as September, when the Fed started slashing rates in an effort to spur the economy and keep the nation out of recession.



The fed funds rate is a benchmark for

home equity lines of credit, credit cards and other consumer loans as well as the prime rate used for short-term business loans.

The Fed's statement repeated earlier ones about how rate cuts up to this point should help to spur the economy and lessen the risk of a downturn. But the central bank removed the following language form the current statement: "downside risks to growth remain."

The absence of that phrase, along with the new comment in the statement that "uncertainty about the inflation outlook remains high" led some experts to believe the central bank is signaling it is ready to pause on rates for some time.

"They haven't closed the door to further cuts, but they've shut it part way," said Mark Zandi, chief economist for Moody's Economy.com. "They're saying they believe they've done enough."

Stocks initially surged following the Fed announcement but wound up giving up all their gains and finished the day lower, a possible sign that investors are still worried about the weak economic environment. The government reported earlier on April 30 that the economy grew by just 0.6% in the first quarter.

Fed policymakers are not set to meet again until June 24 and 25, the longest gap in its calendar of meetings this year

Zandi said he believes a pause is the proper policy for the Fed to take at this point. "I think they've done a lot," he said. "They sense the financial system is on firmer footing. The economy is still weak, but the pace of decline doesn't seem like its accelerating."

But Keith Hembre, chief economist for First American Funds, believes further weakening of the U.S. economy could cause the central bank to start cutting once again later this year or early in 2009. "The Fed has certainly done a lot so far," he said. "But I think six months down the road we'll find that the economy is not rebounding as we've anticipated and the Fed will have to move rates lower."

It is also expected that the Feds may need to raise rates to fight inflation. Rich Yamarone, director of economic research at Argus Research, doesn't think rates will get to that level again. In fact, he believes the Fed's next move will be to raise rates to combat building inflationary pressures. He points out that the real fed funds rate, which is the fed funds rate minus the inflation rate, is now negative 1.27%.

It is also expected that the Feds may need to raise rates to fight inflation

"Policymakers know all too well that when real rates are negative for an extended period of time, inflation pressures rise swiftly and dramatically," said Yamarone, who added that the Fed might start raising rates as soon as December.

There have been growing complaints that the Fed's aggressive rate cuts this year have been a key to why food and oil prices have skyrocketed lately. The fact that the Fed has cut rates while central banks in Europe and Asia have mostly kept rates steady has led to a weakening of the dollar. That, in turn, has driven up commodity prices.

"The Fed will be reluctant to cut any further, because inflation remains elevated, and they do not want inflationary expectations to increase," said Arun Raha, senior economist for Swiss Re.

The weakening dollar is also blamed for driving up

commodity prices	Learn more at: http://money.cnn.com/2008/04/30/news/economy/fed_decision/index.htm?postversion=2008043014

The Edge

For Sale – A few hundred thousand railcars and a smattering of locomotives!!!

The sub prime debacle has recently caught up with the transportation industry in method different than that what we'd expect. In April, we'd pointed out the decrease in the valuation of the dollar, credit concerns and general worry about inflation, which caused a decrease in consumer spending had idled several hundred (or possibly several thousand) intermodal railcars while at the same time, increasing the overall demand for raw materials (coal, iron ore, scrap steel, potash, grain, etc.) which, in turn, created a greater demand for railcars that are used to transport these commodities.

Now we're seeing three of the larger suppliers of private railcars to the industry offering up their rail related subsidiaries for sale. These three companies combined control approximately one-third of the railcar volume in the industry.

Traditionally, railcar asset ownership has been a good long term investment. It's certainly not exciting when you compare it to many financial instruments such as sub-prime paper (ugh!), derivatives and the like; however, it's not bad for a general annuity business. As one senior official told me, "it's not really in the first five to ten years that you make any money on rail assets, it's in the second ten year lease term that really makes it all work."

So why would any multi-billion dollar conglomerate sell a good (and possibly great in this market) annuity business? Basically, because it's one of the few pieces in their portfolio that has value in a market looking for secure investments and it has enough mass and volume to create some value for the seller.

What does this mean for an industry that depends on those that invest capital in railcars and locomotives and then make these assets available as private equipment available for lease? We don't know quite yet, but past practice by investors in rail related assets, mostly railroads, would indicate that there would be some rationalization of assets and thus price and returns to the stockholders.

Consider that we are still in an environment where the railroads continue to push private car ownership or control despite short term fluctuations in their mood. This recent event now creates another variable for shippers to consider in their transportation planning. There are additional variables to consider which are all tied to risk and reliability of timely shipments. In considering railcar availability, your choices are to use railroad supplied cars, some of which are subject to the same criteria of railcar owners you would see as a Lessee, use leased in equipment, or buy your own railcars. Each situation will depend on your requirements, sensitivity to having an asset at your disposal, and commodity value as it relates to transportation costs and timing.

It is our mission here at Tealinc to help you evaluate which scenario works best for you. If you need help evaluating your companies position or evaluating which option is most suitable, don't hesitate to call on us.

We look forward to earning your business!