Touchbase

November 2008

In This Issue

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Three Class I's to cut fuel surcharges next month

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Railroad Updates

It's been eight months since CSX Intermodal's monthly fuel surcharge has dipped below 30 percent. On Monday, November 3rd, The CSX will will break that streak when it begins to apply a 26.5 percent fuel surcharge for November. The company previously applied fuel surcharges of 34.5 percent in October, 37 percent in September, 43 percent in August, 43.5 percent in July, 44.5 percent in June, 37.5 percent in May, 35 percent in April, 29.5 percent in March, 26 percent in February and 27 percent in January. The drayage-only fuel surcharge for November will be 33 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, Oct. 27) 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 Oct. 27, the DOE reported a diesel retail price of $3.29 per gallon.

Meanwhile, Union Pacific Railroad's carload rate-based Highway Diesel Fuel (HDF) surcharge will drop from October's 31 percent to 28 percent for November. The rate-based standard HDF surcharge program is based on the DOE's U.S. average on-highway diesel fuel price. UP's HDF surcharge then will fall to 23.5 percent in December.

Norfolk Southern Railway's fuel surcharge for rates referring to "Tariff NS 8003 Series" will decline from October's 15.9 percent to 12 percent for November. The Class I is projecting a 5.4 percent surcharge for December.

Read more at:
http://www.progressiverailroading.com/prdailynews/news.asp?id=18434

Short Line Railroad Tax Credit Extension Becomes Law

On October 3, the House of Representatives adopted a revised fiscal markets stabilization bill, a.k.a. economic rescue bill, that included the extension of the shortline railroad tax credit, and the President signed it into law 90 minutes later, according to a report from the National Railroad Construction and Maintenance Association.

The credit, which had been in existence from 2005 through 2007, had expired December 31, 2007. This bill now extends the tax credit through December 31, 2009, and qualified railroad track maintenance expenditures made anytime during 2008 will earn credits. In addition, the bill fixes a longstanding issue with the credit by allowing the credit to be used even by railroads that pay the Alternative Minimum Tax.

NRC points out that this is a great victory for the shortline industry

Given that shortlines and regional [lines] own about 50,000 miles of track, this credit will encourage $340 million in track rehabilitation spending per year, providing around $170 million in annual tax credits to the railroad industry.

To allow ample time to plan, CN sent out notification of changes effective 2009

and its contractors, suppliers and shippers.

"By once again attracting a huge number of Congressional supporters early in the effort, we were able to keep the extension amendment included in every relevant piece of tax legislation considered by Congress this year," said Chuck Baker, NRC president. "NRC Members were instrumental in collecting those 248 House co-sponsors and 44 Senate co-sponsors.

"Over the past decade, the shortline and regional railroads and their contractors have made huge progress in Congress," Baker said. "There is now broad recognition among our elected leaders of the transportation and economic benefits of healthy shortline railroad infrastructure."

The credit provides a 50-percent tax credit for infrastructure rehabilitation on Class 2 and 3 railroads, up to a cap of $3,500 per year per track mile owned. Given that shortlines and regionals own about 50,000 miles of track, this credit will encourage $340 million in track rehabilitation spending per year, providing around $170 million in annual tax credits to the railroad industry.

Read the entire article:
http://www.rtands.com/breaking_news_archive.shtml

CN Announces Optional Services Tariff

In recent years, the Canadian National Railway ("CN") says that it has dramatically simplified and standardized their Optional Services tariff CN 9000.

In October 2008, the CN sent out a notice to provide customers with an understanding of what changes are coming for 2009 to allow ample time to plan for any necessary changes to your current business practices. Changes include:

1. General Increases to Optional Services Fees - January 1, 2009
   Most of the fees for optional services will increase by approximately 3 to 6 percent, with the exception of extended asset use, which will increase by 9 percent. Our Optional Services tariff CN 9000-K will contain all of the changes.
2. Focus on Safety
   Ensuring the safety of employees, customers and the communities that reside along their network, as well as protecting the environment is the CN's reported top priority. The following changes will be implemented in 2009:
   A) Overloaded Cars (Items 14000 & 14100) - January 1, 2009
      Root cause analysis indicates that overloaded railcars often lead to derailments. As safety is their top priority when they ship your products, CN will assess a fee of $10,000 per railcar (up from the current $1,560 charge) if it is determined unsafe to move forward and complete the trip due to it being overloaded or improperly loaded. They will also introduce a $1,000 fee for railcars that exceed load limits but, after a

review by our operations employees, can complete the trip safely on our network under additional monitoring.

B) Securing Leaking Railcars (Item 15000) - January 1, 2009
If a railcar carrying dangerous goods/hazardous materials or environmentally sensitive materials, or residues of these products, is found to be leaking or unsafe to move forward, they will assess a fee of $5,000 to move the railcar to an isolation track for securement.

C) Loaded Private Cars Containing PIH/TIH Materials (Item 9250) - April 1, 2009. If you choose not to receive your loaded railcar of PIH/TIH materials as it arrives at destination, the fee for the storage of a railcar containing inhalation hazard materials on CN tracks will be increased to $1,000 per day.

D) They will also review their private car storage policy in order to simplify the process for their customers and for the CN.

3. Fluidity of the Chicago Terminals
They know that getting your products delivered on time is important to you. While Chicago is an important node for all North American rail carriers, fluidity in their Chicago-area yards continues to be a concern; therefore, the CN acknowledges change to their tariff titled Asset Use (Items 9000 to 9600) effective January 1, 2009. To encourage the movement of railcars, they will increase their fee by $30 per railcar per day in addition to the extended asset use fees for the Chicago area only.

If a railcar carrying dangerous goods/hazardous materials or environmentally sensitive materials, or residues of these products, is found to be leaking or unsafe to move forward, they will assess a fee of $5,000 to move the railcar to an isolation track for securement

Learn more from the CN at:
www.cn.ca

AAR Updates

On October 28, 2008, the Association of American Railroads sent out Early Warning EW-5230 in the form of AAR Circular C-10851 a notice that a subscriber to the Interchange Rules found some railcars where a wire was attached to the bottom of the knuckle pin. Car inspection and repair personnel and TY&E personnel are requested to exercise caution when approaching the bottom portion of the knuckle to connect the end air hoses. The car was apparently booby trapped to cause injury. Look for the wire that may be attached to the knuckle pin, if found report it to the proper authority on your railroad at the first opportunity.

Exercise caution when approaching the bottom portion of the knuckle to connect end air hoses... attached wire believed to cause intentional injury

If the wire can be removed safely, remove it. Please forward the removed wire to the proper railroad authority, most likely to the company police department. If the wire cannot be removed safely, attach a bad order or other appropriate tag to remove the freight car from service.

Learn more from the AAR at:
www.aar.org

U.S. Freight Rail Traffic Down in September

Coal, metallic ores, and the catch-all "all other" category saw U.S. carload increases in September 2008 compared to September 2007

"September was not kind to U.S. freight railroads... Hurricane Ike caused significant damage, both to rail infrastructure and to rail customer facilities on the Gulf Coast, including many chemical facilities. And, of course, railroads and their customers are not immune to the upheaval in the general economy due to the credit crunch"

Railroad Traffic

U.S. railroads originated 1,278,188 carloads of freight in September 2008, down 62,029 carloads (4.6 percent) from September 2007, the Association of American Railroads (AAR) reported October 2. U.S. railroads also originated 918,319 intermodal units in September 2008, a decrease of 44,959 trailers and containers (4.7 percent) from September 2007.

Three of the 19 major commodity categories tracked by the AAR — coal, metallic ores, and the catch-all "all other" category — saw U.S. carload increases in September 2008 compared to September 2007. Coal was up 3.0 percent in September, while carloads of metallic ores were up 16.8 percent.

Among other commodities, carloads of motor vehicles and equipment were down 24.7 percent; carloads of chemicals were down 12.1 percent; and carloads of crushed stone, sand, and gravel were down 16.1 percent. Carloads of grain were down 8.3 percent for the month.

"September was not kind to U.S. freight railroads," noted AAR Senior Vice President John T. Gray. "Hurricane Ike caused significant damage, both to rail infrastructure and to rail customer facilities on the Gulf Coast, including many chemical facilities. And, of course, railroads and their customers are not immune to the upheaval in the general economy due to the credit crunch."

In the third quarter, total carloads on U.S. railroads fell 1.2 percent. In the quarter, carloads of coal rose 4.1 percent, carloads of metallic ores rose 16.2 percent, and carloads of waste and scrap material rose 5.2 percent. Carloads of motor vehicles and equipment fell 26.7 percent in the third quarter; carloads of crushed stone and gravel were down 9.1 percent, and carloads of coke were down 32.3 percent.

"Coal was a bright spot in the third quarter," Gray noted. "In fact, it's likely that U.S. railroads moved more coal in the third quarter than in any quarter in history."

For the first nine months of 2008, total U.S. rail carloads were down 31,579 carloads (0.2 percent) to 12,677,188 carloads. U.S. intermodal traffic was down 86,644 trailers and containers (2.8 percent) in the third quarter and was down 278,002 trailers and containers (3.1 percent) for the first nine months of 2008 to 8,746,631. Total volume was estimated at 1.32 trillion ton-miles, up 0.9 percent from last year.

For just the week ended September 27, the AAR reported the following totals for U.S. railroads: 329,350 carloads, down 4.7 percent (16,148 carloads) from the corresponding week in 2007, with loadings down 4.6 percent in the East and down 4.7 percent in the West; intermodal volume of 246,280 trailers and containers, down 2.7 percent (6,964 units) but the highest weekly total so far in 2008; and total volume of

“Coal was a bright spot in the third quarter... in fact, it’s likely that U.S. railroads moved more coal in the third quarter than in any quarter in history”

In the face of weaker demand, steel companies discuss production cuts

Steel prices this summer were at record highs and mills were running at full capacity. Demand was expected to rise 8 percent, outpacing the 5 percent capacity growth

an estimated 34.6 billion ton-miles, down 3.6 percent from the equivalent week last year.

For Canadian railroads during the week ended September 27, the AAR reported volume of 77,988 carloads, down 6.2 percent from last year; and 52,058 trailers and containers, up 7.6 percent from the corresponding week in 2007.

Combined cumulative rail volume for the first 39 weeks of 2008 on 12 reporting U.S. and Canadian railroads totaled 15,571,913 carloads, down 1.0 percent (163,012 carloads) from last year, and 10,628,931 trailers and containers, down 1.9 percent (202,189 units) from 2007’s first 39 weeks.

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

Industrial Inside

World steelmakers met for their annual conference in early October. There they discussed what recent developments in the global economy might mean to their businesses and how far to cut output before prices fall below the break-even cost of making steel.

On Monday October 6, IMT addressed the recent issues that steel companies have started to reduce purchases on the back of weaker demand in their sectors. "Much of this is linked to credit restrictions spreading into the economy [and now many steel buyers] aren't getting short-term lines of credit from lenders to purchase raw steel and process it [while] others are delaying purchases because they don't want to be stuck with excess steel” the Financial Times Reported.

As a result, prices for many grades of steel have fallen substantially. Steel prices this summer were at record highs and mills were running at full capacity. Demand was expected to rise 8 percent, outpacing the 5 percent capacity growth. Now the price of hot-rolled steel, the benchmark steel product, is $780 a metric ton on global markets, Peter Marcus, steel analyst for World Steel Dynamics said in a Wall Street Journal report. "That is down from $1,000 a metric ton earlier this year but still more than the $650 it costs for most steelmakers to make a metric ton of steel."

In continuing coverage, the Financial Times reported, "Top executives of big steel companies — in Washington for the annual meeting of the World Steel Association, which ended on Tuesday — have been reacting in a somber manner to indications that the global economy has been deteriorating at a rate faster than previously thought."

"We are in a period of high economic uncertainty," Ku-Taek Lee, chairman of the World Steel Association (formerly the International Iron and Steel Institute), said in a statement. "The impact on steel markets is becoming more apparent as we move into the later part of this year."

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"The big question that everyone is asking is to what degree the economic problems of the U.S. and Europe will spread to other countries," according to André Gerdau Johannpeter, chief executive of Gerdau, a Brazil-based steelmaker that produces 40 percent of its steel in the United States.

Sakari Tamminen, chief executive of Rautaruukki, Finland's biggest steel producer, noted, "Up to now, most of my company's business has been relatively unaffected by the crisis. But we all [in the steel industry] need to be assured that actions by governments in tackling the financial turbulence are having an impact."

According to the latest data, steel shipments by metals service centers in the U.S. and Canada declined at double-digit rates in August: U.S. centers' shipments of steel products declined to 3.87 million tons, 16.8 percent below the August 2007 shipment total; Canadian steel service centers' shipments dropped 18.2 percent from August 2007 totals, to 258,200 tons. *(Source: The Metals Service Center Institute)*

To counter the weaker trends, the Financial Times last week said, "many steel companies are preparing to cut production, at least for a few months, in the hope this will match falls in demand, and maintain prices and profitability."

ArcelorMittal, the world's largest steelmaker, has already announced it will reduce production by 15 percent in some markets and China's steel association has said some of its steelmakers were planning to cut production by about 20 percent to mitigate falling prices. In fact, five of China's largest steel producers — Shougang Group, Hebei Iron & Steel Group, Anyang Iron & Steel, Shandong Iron & Steel and Baoshan Iron and Steel Co Ltd. — are cutting raw steel output by 10 percent to 20 percent through the end of 2008, according to reports (via Metal Producing & Processing and China Knowledge). These four companies alone have a combined capability of 100 million metric tons/year. ArcelorMittal CEO Lakshmi Mittal told the *Journal* that "tightening in the credit markets could keep supply in line with demand, as proposed new mills or expansions fail to get necessary financing."

According to the latest data, steel shipments by metals service centers in the U.S. and Canada declined at double-digit rates in August

Although steelmakers are cutting growth projections for 2009 and 2010, many are still looking forward to at least some expansion in demand. "We are seeing a slackening in demand, but there's no reason to think it will be a catastrophe," said Wolfgang Eder, chief executive of Austria's biggest steelmaker, Voestalpine. Eder projects world demand for steel will grow 4 percent to 4.5 percent next, echoing Mittal's forecast.

"We are seeing a slackening in demand, but there's no reason to think it will be a catastrophe"

Many steel producers are pinning expectations on hopes that demand in India, China and South America and developing regions will move ahead at a quick clip, driven by the need for new infrastructure. Companies with much of their operations in such emerging regions are more positive about the outlook on demand compared to those based mainly in developed countries.

Growth last year was 6.6 percent; in 2006, it was 8.8 percent

"We are currently reviewing our forecasts for 2009, which had been prepared this summer before current events," the World Steel Association's chairman said in the weekend's statement on the organization's short-range forecast. "However, we continue to expect growth in steel demand in 2009 and for the medium term, above the world GDP growth rate."

Learn more at:
http://news.thomasnet.com/IMT/archives/2008/10/facing-weaker-demand-steelmaker-conference-focuses-on-global-economy-impact-and-production-output-cuts.html?WT.mc_t=blg&WT.mc_n=blg1008&channel=email

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Financial Focus

Fed lowers benchmark rate by a half-point as it continues to fight the ongoing crisis in the credit markets; warns that economic recovery will take time

The Federal Reserve cut a key short-term interest rate by a half-percentage point October 29 and issued a gloomy outlook for the economy due to continued worries about the ongoing crisis in the financial and credit markets.

The rate cut put the central bank's federal funds rate at 1%. This is the ninth time that the central bank has lowered rates since September 2007 in an effort to deal with the problems in the U.S. economy and credit markets. The new rate matched the lowest level for this overnight bank lending rate ever -- the last time it was at 1% was from June 2003 to June 2004.

The Fed said in a statement that it was concerned about the drop-off in consumer and business spending due disruptions in the credit markets and warned that the economic slowdown is likely to get worse.

"The intensification of financial market turmoil is likely to exert additional restraint on spending, partly by further reducing the ability of households and businesses to obtain credit," the central bank said in its statement.

Economists generally agreed this is the Fed's most grim assessment of the economy since the Fed started issuing statements with interest rate decisions in 1995.

The fed funds rate is used to set rates for a wide variety of consumer loans, including home equity lines and credit cards, as well as for many business loans. The lower the rate, the more the Fed hopes to spur economic activity

"They go through a litany of all these problems," said Gus Faucher, director of macroeconomics, Moody's Economy.com. He added that he thinks this statement is the Fed's way of indicating that the U.S. is already in a recession and that the economy will remain weak well into 2009.

The Fed also lowered its discount rate by a half-percentage point to 1.25%. That is the rate at which it lends directly to banks and Wall Street firms.

In its statement, the Fed also appeared to concede that the rate cuts and a number of other actions it has taken to pump hundreds of billions of dollars into the credit markets would not lead to an immediate return of economic growth.

The Fed projected improved credit markets and a return of moderate growth "over time." And it warned that "downside risks to growth remain."

"The intensification of financial market turmoil is likely to exert additional restraint on spending, partly by further reducing the ability of households and businesses to obtain credit"

Will Fed go below 1%?

The Fed's grim view of the economy is expected to be reinforced when the Commerce Department issues its first reading on gross domestic product, the broadest measure of the nation's economic activity, for the third quarter.

Economists surveyed by Briefing.com forecast that GDP declined by 0.5% annually after jumping 2.8% in the second quarter. If the GDP number is negative, it would be only the fifth quarter in more than 17 years that has happened.

Faucher said he believes that the risk of further weakening in the economy, coupled by the unanimous vote, is a signal that the Fed is not done lowering rates yet. He's predicting another half-point cut, to 0.5%, at its next scheduled meeting on December 16.

Kurt Karl, chief economist at Swiss Re, is also looking for another half-point cut by the end of the year. "In aggressively cutting rates, the Fed is signaling its willingness to do what it takes to stabilize financial markets," he said.

"In aggressively cutting rates, the Fed is signaling its willingness to do what it takes to stabilize financial markets"

But other economists expressed fears that the Fed has already left itself with limited ability to respond to future problems by taking rates this low. "Now they're running low on ammunition," said Rich Yamarone, director of economic research at Argus Research. "They look like Barney Fife with one bullet left. That's not too encouraging." Other economists agreed, saying they believe Fed policymakers would prefer to not cut rates below 1%.

"I don't think there's anything to prohibit them from going under 1%, but there also is probably not a great deal of urgency on their part to bring rates lower," said Keith Hembre, chief economist First American Funds.

The problem isn't that loans are expensive. Banks are simply unwilling to lend

One economist questioned whether rate cuts really can make much difference since the current credit crunch is limiting the availability of funding. The problem isn't that loans are expensive. Banks are simply unwilling to lend.

"The latest Fed move is not going to hasten the economic recovery by a single day or accelerate the cleansing of bank balance sheets," said Bernard Baumohl, executive director of The Economic Outlook Group. "What is needed more than anything else at this stage is simply patience."

Learn more at:
http://money.cnn.com/2008/10/29/news/economy/fed_move/index.htm?postversion=2008102917

The Edge

It certainly has been an interesting time in the financial markets. When you add it up we, the tax payers, have injected one billion plus of our hard earned dollars helping those who contributed to the implosion buy their way out. It certainly doesn't paint a rosy picture for commerce in the United States.

If capital infusion is any indicator, railroads are staying the course due to a continued willingness to invest in the long term versus taking short term gains. Recent projections indicate anticipated 2009 spending of somewhere north of $8 billion for capacity and infrastructure and if Warren Buffet is any indicator of future expectations, note his most recent significant investment in BNSF.

Albeit rail rate increases have been nothing short of painful in the past few years, a healthy railroad system is important to the commerce of our country. Our experience is that although there are still rate increases across most all commodity types, they are much more reasonable than three to six months ago.

The shipping community is reeling from the credit crisis as well. Some industries, when coupled with new regulations and restricted access to capital, are having a very difficult time while others are (or maybe better put "were") enjoying higher commodity prices and rushed to meet demand before the cusp of the credit crisis took away buyers.

So what does the future hold?

Looking to railcar orders for new equipment we see what we expect, a significant decline in orders. Looking to certain commodity groups, we see the world wide credit crisis effecting commodities that were once thought "gold", e.g. scrap to China, grain to Europe, aggregates to the US, building materials originating in Canada to Asian countries, iron ore from Australia to China, etc. Indications are that the US is going to contract to primarily domestic business.

On a more global scale an indicator we look to is the Baltic Dry Index ("BDI"). The BDI provides an assessment of moving major raw materials by sea. It is a good leading indicator for economic growth and production since it doesn't deal with container ships carrying finished products but with the precursors to production: bulk carriers carrying raw input products. The BDI has fallen 91.5% since May 2008. All indications are that the finance-ability of raw materials is difficult simply due to the access to and supply of credit facilities for buyers.

How does that affect shippers of goods on railroads in the United States? It creates a belt-tightening that causes a necessary re-evaluation of core requirements. It realigns capital spending to create more immediate cash flow requirements and causes more people to do less.

Our advice is to look hard at where you’re cutting and where you’re spending. Cuts are usually a necessary requirement in times like these; however, we have yet to see anyone save themselves into prosperity.

We look forward to earning your business!