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Railroad Updates

Less than stellar economic conditions have helped to put fresh pressure on rail operators. After rising for 14 straight months, overall rail rates edged down 0.67% in August. Rates for carload service led the path downward by slipping 0.62%, following two consecutive months of price hikes. Intermodal rail rates weren't far behind, down 0.58%, but that one followed June and July price declines. In aggregate, the rail industry pushed transaction prices up 4.6% from year-ago levels.

% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Rail freight	-0.6	1.4	4.6
Intermodal	-0.6	1.3	4.9
Carload	-0.6	1.4	4.7

Ever since hitting a deflationary low point in Q2 of 2009, rail prices have been growing on a fairly predictable trajectory. We now forecast a 5.1% annual price hike by the time 2010 closes and another 4.6% increase in 2011.

Learn more at:
http://www.logisticsmgmt.com/view/pricing_across_the_transportation_modes/railfreight

Small Railroads Post Strongest Volume of 2010

With an increase in chemical tankcar shipments that make up their largest commodity category, North America's regional and short line railroads set back-to-back 2010 volume peaks in the two weeks ending September 2010 and beginning October 2010.

The 343 carriers tracked by RMI's RailConnect report -- which is more than half the estimated 550 short lines in the U.S. and Canada – originated 106,232 shipments of all types in the week ending Oct. 2, after 104,254 in the Sept. 25 week.

Before that, their 2010 peak volume had been the seven days ending Sept. 4, when they picked up 103,354 loads. RMI said the 106,232 loads in this year's week 39 is the strongest since 109,441 in week 47 of 2008, which would have been a point that November just before traffic plunged as the financial crisis slashed freight demand.

Small railroads mainly specialize in a few commodities, and their top

Chemical demand suggests renewed demand from the factory sector for raw materials

categories are chemicals, grain and a group of road-building or site-preparation construction materials of stone, clay and rock aggregate. Chemical volume has been solid for a number of recent weeks, both for short lines and major railroads, but small railroads had their highest volume in chemicals this year with 16,494 carloads in the Oct. 2 week. Since chemicals are used in a wide range of industrial processes, from plastics to paints to pharmaceuticals, that suggests renewed demand from the factory sector for raw materials.

Intermodal volume is not a major part of the short line business, accounting for only about 7 percent of their overall traffic this year. However, RMI-reporting railroads originated more intermodal loads in the Oct. 2 week than any other period this year, with 8,397 loads compared with their previous 2010 peak of 8,121 three weeks earlier.

Read the entire article:
http://www.joc.com/rail-intermodal/small-railroads-post-strongest-volume-2010

AAR Updates

AAR and TTCI Announce Establishment of Research Advisory Board

On October 25, 2010 the Association of American Railroads (AAR) and the Transportation Technology Center, Inc. (TTCI) are pleased to announce the establishment of a TTCI Research Advisory Board. Developed to provide feedback on AAR's Strategic Research Initiatives and on how TTCI can best serve the AAR Affiliates and the Associates, the board will consist of members drawn from AAR's Gold Associate and Affiliate programs.

"I believe that this board will not only add value to the associate and affiliate program but will also bring additional insight to the valuable research program at TTCI," said Edward R. Hamberger, president and CEO of the Association of American Railroads.

The TTCI Research Advisory Board will be made up of twelve members who will serve two-year terms. The board will include members from non-Class I freight railroads, commuter railroads, infrastructure and equipment suppliers, and engineering consulting firms and car owners and lessors.

"The addition of AAR associate and affiliate members... will bring an additional dimension to research efforts..."

"The addition of AAR associate and affiliate members to our research program will bring an additional dimension to our research efforts from valuable stakeholders in the railroad industry. This will help maintain TTCI's reputation as the leading transportation research and test organization in the world," said Roy Allen, president of the Transportation Technology Center, Inc.

The Advisory Board will meet annually in Pueblo, Colorado at the Transportation Technology Center to receive updates on the AAR research program, observe and inspect various technology developments and interact with members of TTCI's senior management team. The Advisory Board will offer input and advice to TTCI and the AAR research committees regarding the development and

implementation of the AAR's Strategic Research Initiatives Programs.

Read the entire article:
http://www.aar.org/NewsAndEvents/Press-Releases/2010/10/14-Staggers.aspx

Railroad Traffic

AAR Reports September 2010 rail traffic continues measured recovery

The Association of American Railroads (AAR) on Monday, October 11, 2010 reported that monthly rail carloads on U.S. railroads in September 2010 were up 7.7 percent compared with the same period last year, but still down 7.5 percent compared with September 2008. According to AAR's October Rail Time Indicators Report, the weekly average of 297,502 carloads last month was the highest since October 2008.

Fall peak begins as new weekly records set in Intermodal, carloads

Intermodal traffic on U.S. railroads in September 2010 was up 17.3 percent compared with the same month in 2009, and up 0.2 percent compared with September 2008. September is traditionally one of the highest-volume months of the year for intermodal as retailers begin to stock up for the holidays.

Seasonally adjusted AAR data for September 2010 showed an increase in carloads from the previous month, up 1.9 percent from August 2010, while intermodal traffic experienced declines from August 2010, down 0.1 percent.

"September 2010 was a steady month for rail traffic with new weekly records set in both carloads and intermodal," said AAR Senior Vice President John T. Gray. "That said, intermodal traffic gains can be attributed to the upcoming holiday season and the number of railcars coming out of storage are not as significant as during the first few months of the year; all of which is evidence of a slow measured economic recovery."

"...the number of railcars coming out of storage are not as significant as during the first few months of the year; all of which is evidence of a slow measured economic recovery"

On an unadjusted basis, September 2010 also saw carload gains in 16 of the 19 commodity groups tracked by AAR. In terms of volume change, four categories in particular made significant gains: coal up 30,111 carloads, metallic ores up 16,978 carloads, grain up 14,123 carloads, and crushed stone, sand, and gravel up 11,399 carloads, from the same period last year.

Railroads continue to take rail cars out of storage. Railroads brought 17,638 rail cars out of storage in September, the largest number since April 2010. However, 331,074 freight cars, roughly 21.6 percent of the American railcar fleet, remain in storage.

Visit the AAR at:
http://www.aar.org/NewsAndEvents/Press-Releases/2010/10/11-RailTimeIndicators.aspx

Industrial Inside

Retailers forecast modest holiday sales

Retailers expect holiday sales to increase a modest 2.3 percent in 2010, down from the 10-year average of 2.5 percent but well above 2009's tepid 0.4 percent, the National Retail Federation said.

Consumer spending accounts for 70 percent of U.S. economic activity

Consumer spending accounts for 70 percent of U.S. economic activity and is closely watched by the freight transportation industry. Consumer imports drive the annual peak season for containerized imports, which carriers say is beginning to wane after apparently peaking in August 2010. Intermodal rail shipments continued strong in September 2010, hitting annual highs for two consecutive weeks.

"While many consumers will be wishing for apparel and electronics this holiday season, retailers are hoping the holidays bring sustainable economic growth," said NRF President and CEO Matthew Shay. "Though the retail industry is on stronger footing than 2009, companies are closely watching key economic indicators like employment and consumer confidence before getting too optimistic that the recession is behind them."

The holiday season is make-or-break for many retailers. 2009's small year-to-year increase in holiday sales followed a 3.9 percent decline in the 2008 season, which came on the heels of the financial crisis.

"...concentration on supply chain efficiencies and inventory control will continue during this holiday season as retailers limit their exposure to excess merchandise and unplanned markdowns"

The retail federation said the concentration on supply chain efficiencies and inventory control will continue during this holiday season as retailers limit their exposure to excess merchandise and unplanned markdowns. Companies are also expected to leverage new channels - like mobile - to drive sales.

"While consumers have shown they are once again willing to spend on what's important to them, they will still be very conscientious about price," said NRF Chief Economist Jack Kleinhenz. "Retailers are expected to compensate for this fundamental shift in shopper mentality by offering significant promotions throughout the holiday season and emphasizing value throughout their marketing efforts."

The NRF's holiday sales forecast is based on an economic model using several indicators including employment, industrial production, disposable personal income and previous monthly retail sales reports.

Read the entire article:
http://www.joc.com/logistics-economy/retailers-forecast-modest-holiday-sales

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Financial Focus

Is the Fed playing with fire?

The Federal Reserve is about to throw some more fuel on the fire it has been stoking for more than two years.

But the expected move to pump more cash into the system might not do much good at this point, and the economy could get burned in the process.

The central bank has pumped about $2 trillion into the economy since the recession began in September 2008

New asset bubbles could form if the Fed doesn't start backing away from its policy of easy money

The central bank has pumped about $2 trillion into the economy since the recession began in September 2008, in a process known as quantitative easing -- massive purchases of financial assets, like mortgages and Treasurys, designed to encourage spending through lower interest rates.

Now, as the Fed prepares for a two day meeting the first week of November 2010, top officials are sending clear signals that more purchases are on the way.

"Further action is likely to be warranted unless the economic outlook evolves in a way that makes me more confident," said William Dudley, president of the Federal Reserve Bank of New York said. In remarks made on Tuesday, October 5th 2010, Chairman Ben Bernanke said of the possibility of future purchases, "I do think they have the ability to ease financial conditions."

But further Fed action comes with a number of risks, and not everyone is eager to see another round of quantitative easing. Here are the dangers:

Another bubble. The idea behind asset purchases is to flood the economy with money, which would lower interest rates and spur more lending and spending.

But new asset bubbles could form if the Fed doesn't start backing away from its policy of easy money -- often thought to be the source of the housing bubble which caused the recession in the first place.
Kansas City Fed President Thomas Hoenig has been warning of asset bubbles since early this year, and consistently voting against additional asset purchases and low interest rates.

And there are already troubling signs of possible new bubbles, like increases in the values of various assets from Treasurys to gold to other commodities.

A falling dollar. At the last Fed meeting policymakers said prices were too low, and signaled they were ready to take action if necessary.
That caused a drop in the value of the dollar, as investors fear the currency will lose value in the future. On Tuesday, October 5th 2010 the dollar fell about 1% against the euro, and almost 4% more since then.

If more confidence is lost, a downward spiral for the greenback could raise prices by making the cost of various commodities and imports, such as food and oil, more expensive for Americans.

That could also drive up interest rates, as overseas investors financing U.S. government debt would demand higher rates to compensate for expected declines in the dollar.

Higher rates could lead to a host of problems, like making business and consumer loans more expensive. And it would hurt the value of the Fed's huge asset holdings.

"When the Fed buys long-term government debt from the private market, it shifts interest rate risk from bondholders to taxpayers," Minneapolis Fed President Narayana Kocherlakota warned. It won't work. There are fears that rushing to buy additional assets will do little to spur hiring or spending in an economy already awash in excess cash, one in which nervous consumers are saving more and paying down debt.

"Asset purchases in our current economic environment can do little if anything to speed up the return to full employment," Philadelphia Fed President Charles Plosser said. "Because I see little gain at this point, and some costs, I would prefer not to engage in further asset purchases at this time."

Lowering rates feeds the risk of inflation down the road without solving the problem today

Many economists echo Plosser's doubts about the Fed being able to jumpstart the economy with more money.

"I think the impact [of additional purchase] will be minimal," said Bernard Baumohl, executive director of the Economic Outlook Group. Even if asset purchases lower interest rates, Baumhohl said, banks are still reluctant to lend and both businesses and consumers are still too nervous to take on more debt.

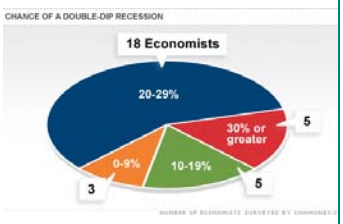
So lowering rates feeds the risk of inflation down the road without solving the problem today.

"We are following policies that unless changed will eventually lead to lots of inflation down the road," said Warren Buffett at Fortune's Most Powerful Women Summit on Tuesday, October 5th 2010. "We have started down a path you don't want to go down."

The risk of doing nothing. While the economy remains fragile, sitting on the sidelines isn't a safe option either.

There are growing concerns of a double-dip recession

There are growing concerns of a double-dip recession or a deflationary spiral that could hurt economic growth for years to come. A recent poll of top economists by CNNMoney found nearly twice as many worried about deflation than a return of inflation.



With inflation currently near zero, many fear that a downward spiral in prices is a serious threat.

"Once deflation gets going, it's very hard to stop," said James Hamilton, economics professor at the University of California at San Diego.
Even having very low inflation can cause problems for the economy, he said. "As long as we have inflation this low, people have an incentive to hoard cash rather than putting it to work constructively."

He argues the weak economy warrants immediate action, despite the risks, and supports another round of asset purchases.

"We have to balance those worries about negative consequences with worries the economy faces right now."

Read the entire article:
http://money.cnn.com/2010/10/05/news/economy/Fed_quantitative_easing/index.htm

The Edge

I was discussing the economy with some industry veterans and one summed it up perfectly. "Just as Henry Ford made automobiles you can have a car in any color you want, as long as it's black." Our economy has come back with fits and starts but hasn't gotten past the starter at this point. This industry expert's opinion is that companies that provide basic goods and services and are well run from a pure cash flow perspective are getting by on their wits. Others aren't or won't be unless we have a significant economic upturn.

All indicators from a financial perspective (see the Fed article in this newsletter) are that cash continues to be hoarded for all but the very best financial risks. From a railroad perspective monies are being spent on key corridors that transport that bulk of the goods for each railroad, as they should be. Public monies where they can be exploited are also being used to take the sting out of riskier investments in public – private partnerships.

We see fundamentalists continue to invest – cautiously – in their business models. There is more time and energy being spent in review and testing assumptions than there once was in strategy sessions, a practice that should be carried into all timeframes and situations.

We are fortunate in that we are working with a number of companies that are employing our skills to help them work their way thru the present quagmire of economic uncertainty. If we can be of assistance to you please don't hesitate to call.

As an aside we are offering two $1,000 scholarships for students. See our website for details.

We look forward to earning your business!