Touchbase

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Norfolk Southern CEO sees 'modest' US economic growth in short term

Norfolk Southern said its volume growth was led by a 23% rise in shipments of coal bound to U.S. ports for export to overseas markets

The next release of DDCT application is Tuesday, November 8, 2011

Railroad Updates

Norfolk Southern Corp. Chief Executive Wick Moorman said Wednesday October 26th, 2011, that the U.S. economy doesn't appear to be on the verge of tipping back into recession, echoing recent comments from his counterparts at railroads Union Pacific Corp. and CSX Corp.

"Over the short term, we continue to see signs pointing to overall modest economic growth," Moorman told analysts on a post-earnings conference call.

He also said he expects Norfolk Southern' s overall freight volume, which ticked up 3 percent in the third quarter, to continue growing at a rate "somewhat greater" than that of the U.S. economy overall.

Executives of fellow Class 1 U.S. railroads Union Pacific and CSX, which reported quarterly results week of October 17th 2011, also said they don't expect a double-dip recession, instead forecasting slow to moderate growth going forward.

Top railroads and other freight haulers serve as something of economic bellwethers because of the breadth of goods that they ship.

Norfolk Southern reported a third-quarter profit of $554 million, or $1.59 a share, up 24 percent from $445 million, or $1.19 a share, in the year-ago period. Revenue increased 18 percent to $2.89 billion.

Norfolk Southern said its volume growth was led by a 23 percent rise in shipments of coal bound to U.S. ports for export to overseas markets, as well as a 13 percent increase in domestic intermodal shipments, meaning containerized freight transported on both trucks and trains.

The railroad said highway congestion and tight truck capacity are among the factors boosting demand for its intermodal service.

Learn more at:
http://www.csx.com/index.cfm/customers/news/customer-news/new-hazardous-materials-publication/

Damaged and Defective Car Tracking (DDCT) System Release

Railinc has announced the next release of the DDCT application. This release will occur on Tuesday, November 8, 2011 between 20:00 and 21:00 EST. DDCT will be unavailable during this time.

The maintenance release includes the following modifications and enhancements:

Shop Enhancements

- The shop SPLC location information is now displayed in the shop

related email notifications
- The Carrier and Car Owner FindUs.Rail contact information is displayed on the shop repair screen
- The "On Hand" shop report now shows how many days a car has been on hand
- Notes and informational messages have been updated for clarity
- Cars on the "Report Repairs" screen that are released or fixed will be removed after 7 days

General Enhancements

- Any Railroad can now search for any active Defect Card
- Additional disposition information is now displayed on the "Car Details" screen
- The Primary FindUs.Rail Contacts are now highlighted in lookup screens
- The DDCT User Interface has been updated to the current Railinc UI standard

Production Changes

- The Umler Validation issue during Request Disposition and Report Car on Hand actions has been fixed
- The Re-add Car functionality issues have been fixed
- A Handling Carrier that originated an incident can now see the hyperlink on the "Cars on Hand" screen
- A complete list of the maintenance items included in this release will be available on the DDCT home page in the News and Updates section on Railinc.

Railinc is offering a new series of live webinars to review and refresh DDCT system users on critical DDCT processes

Special Note

Railinc is offering a new series of live webinars to review and refresh DDCT system users on critical DDCT processes. There is no fee, but registration is required to participate in all DDCT webinars.

Learn more at:
https://www.railinc.com/rportal/web/guest/ddct-webinars

BNSF Expects Return to Pre-Recession Volume in 2013

BNSF: "We don't think we will be back at 2006 volume levels next year. We think it's probably going to be 2013."

BNSF Railway foresees a slow economic recovery and doesn't expect its freight volume to return to pre-recession peaks until about 2013, a top executive said.

"We're planning for modest growth," said John Lanigan, the railroad's executive vice president and chief marketing officer. "We don't think we will be back at 2006 volume levels next year. We think it's probably going to be 2013."

Large retailers are 'skittish', fearful of being stuck with unsold inventory, are requiring

He said "skittish" large retailers, fearful of being stuck with unsold Christmas inventory, have told him they're requiring suppliers to hold stockpiles at their own expense at forward supply points that retailers can tap to meet spikes in demand. "That's kind of a departure from what

suppliers to hold stockpiles

retailers have done in the past," Lanigan told Progressive Railroading's RailTrends conference in New York.

"When you have retailers, which are really kind of the bellwethers of the economy, behaving that way heading into the Christmas season, it's got to give all of us reason to pause and wonder exactly where we are (in) the recovery."

Rail volume recovered strongly through the first quarter, then "moved sideways" until increasing about a month ago

Lanigan noted rail volume recovered strongly through the first quarter, then "moved sideways" until increasing about a month ago, when BNSF had its first 200,000-shipment week since the recession. He said BNSF's weekly volume has slipped since then to the 195,000-200,000 shipment range, about 90 percent of levels at the 2006 peak.

BNSF is benefiting from strength in agricultural and energy-related shipments "but 70 percent of U.S. GDP is still consumer spending, so until the consumers start buying houses, cars, washers, dryers, furniture, etc., then we're going to have this slow road back."

"70% of U.S. GDP is still consumer spending, so until the consumers start buying houses, cars, washers, dryers, furniture, etc., then we're going to have this slow road back.", says BNSF

If volume takes until 2013 to recover to 2006 levels, it will mean seven years have passed between cyclical peaks. "If you go back to the various recessions we've had in the last 30, 40, 50 years… no economic cycle has taken seven years to go from peak to peak," Lanigan said.

"This has been a very difficult time and the key component to this economy getting back to where it could be is the consumer," he said. "And until the consumers feel that they've got some certainty in their lives, that their job is going to be secure, that they can see their companies hiring people, that they can see some kind of progress, then we're going to have this slow recovery."

Read the article at: **http://www.joc.com/class-i-railroads/bnsf-expects-return-pre-recession-volume-2013**

AAR Updates

Reporting of reflective sheet applications in Umler

There will be an upcoming implementation in Umler of AAR Circular C-11467, which pertains to Rule 66, Reporting of Reflective Sheet Applications in Umler.

In Umler Release 3.9, scheduled for Wednesday, November 30, 2011, the reporting of Reflectorizations will become mandatory as follows:

- For cars Built or Rebuilt after the release date of Umler 3.9 (November 30, 2011), Reflectorization will be mandatory immediately.
- For cars Built or Rebuilt on or after January 1, 2006, Reflectorization will become mandatory on January 1, 2012.
- For cars Built or Rebuilt before January 1, 2006, Reflectorization will become mandatory on November 28, 2015.
- Regardless of Built or Rebuilt Date, Reflectorization will not be mandatory for cars having an FRA Waiver, as indicated by a value of "W" in element B096, FRA Reflectorization.

Cars that require a reflectorization will go into conflict with the message "Mandatory

Cars that require a Reflectorization according to the rules above, and do

elements failed"

not have one reported, will go into conflict on the dates indicated. In the Umler 3.9 Release, cars that go into conflict this way will have the conflict indicated on element B096 with the message "Mandatory elements failed." In the Umler 4.0 Release, scheduled for January 2012, the error message will be changed to "Mandatory Reflectorization not reported."

Please contact Tealinc for a list of cars in Umler that will need to have Reflectorizations reported.

To learn more or sign up for the webinars please visit:
https://www.railinc.com/rportal/web/guest/home

Mechanical Brief with Steve Christian

Railcar inspection and repair involvement is critical

Over the course of the year, our team has been involved in the inspection of close to 1,000 railcars of various types from open top and covered hoppers sitting in storage, to aggregate cars and mill gondolas coming out of service. In nearly every inspection we've been involved with, we've noticed a common thread that has captured our attention. In most circumstances, prior to our inspection, the railcars were returned to the car owner from a lease customer following lease termination. Common practice of course is for the returning lease customer to send the railcars to a shop or otherwise conduct a mechanical inspection and repair prior to returning the cars; however, in most of our inspections, even following what we have determined to be "extensive lease termination repairs" we continue to find poor quality shop work.

It is imperative that our current and future customers are educated on what to look for following a railcars return from a bad order hold, shop visit and prior to lease commencement, renewal and termination

Rest assured that from my career background and own personal involvement with railcar shops, generally speaking, I have ultimate faith in the level of craftsmanship and quality of most railcar repair shops work. As a railcar inspector and from a customer service perspective, I find it imperative that our current and future customers are educated on what to look for following a railcars return from a bad order hold, shop visit and prior to lease commencement, renewal and termination.

Of the course of our inspections, here are some examples of poor repair work that was made on railcars we've inspected.

1. Many open top hoppers had poor door fit-up with large gaps evident between the bottom of the gate and door pan itself. A shop should have adjusted the doors for a better fit.
2. Cast and forged levers were replaced with flame cut levers made from mild steel and they will not last!
3. Heat treated door shafts were replaced with non-heat treated square stock. Many of these replacement shafts already showed signs of bending.
4. Door shafts were secured in place by welding 100% to the lever instead of by a single cotter pin. This makes replacement more difficult and will probably result in the destruction of otherwise good parts.
5. Rapid discharge hopper cars had one or more sets of doors that were not locked over center which resulted in damage to doors in transit and could have resulted in a major derailment.

This is standard operating procedure at Tealinc and we take pride in owned and leased equipment

The list could go on and on but I believe my point is made. In many cases, it is obvious that the lease customer and/ or car owner did not have specific standards/ instructions for proper repairs by the shop. It is also obvious that the shop was not capable of working on the particular car type. It is glaringly obvious that the lesson here is that you must be involved, either personally or by a competent representative, in shop selection, inspections and the entire repair process.

This is standard operating procedure at Tealinc and we take pride in owned and leased equipment. Please call on us if you can benefit from having a skilled set of eyes watching over, advising or otherwise leading your repair process.

Steve Christian is the Manager Value Creation-Railcar Performance Manager for Tealinc, Ltd. You may contact Steve directly out of our Nebraska office at (308) 675-0838 or via email at ***steve@tealinc.com****.*

Railroad Traffic

Freight rail industry continues to add jobs, take rail cars out of storage

The Association of American Railroads (AAR) reported October 6, 2011, gains for September rail traffic compared with the same month last year, with U.S. railroads originating 1,195,671 carloads, up 1.1 percent, and 949,606 trailers and containers, up 2.3 percent. Through the third quarter of 2011, U.S. carloads are at 87 percent of the levels they were at this point in 2006, the highest year on record for U.S. rail traffic. Intermodal volume in the first nine months of 2011 is 96 percent of what it was in the peak year of 2006.

Rail employment continues to make gains, with 1,191 jobs added in August 2011, the latest month for employment data, bringing total Class I freight railroad employment to 160,107. During September, rail car owners brought 11,087 cars out of storage, leaving roughly 17.1 percent of the North American rail car fleet remaining in storage. Detailed monthly data charts and tables will be made available in the AAR's Rail Time Indicators report to be released tomorrow.

In September 2011, 13 of the 20 carload commodity categories saw increases on U.S. railroads compared with September 2010

In September 2011, 13 of the 20 carload commodity categories saw increases on U.S. railroads compared with September 2010. The largest gains were: coal, up 6,356 carloads or 1.2 percent; primary metal products, up 5,272 carloads or 14.4 percent, and motor vehicles and parts, up 4,445 carloads or 8.2 percent. In percentage terms, the biggest increase in U.S. carloads in September was in petroleum and petroleum products, up 16.1 percent. Compared with September 2010, grain carloads in September 2011 were down 16,849 carloads or 18.2 percent, continuing a three month-long slide.

"Carloads have been closely tracking last year's levels for six months, and intermodal continues to grow, though more moderately than earlier this year," said AAR Senior Vice President John T. Gray. "Rail traffic is consistent with an economy that is probably still growing, but far more slowly than any of us would want."

Read the entire article at: **http://www.aar.org/NewsAndEvents/Freight-**

Rail-Traffic/2011/10/06-railtraffic.aspx

Industrial Inside

US distilled grain exports will rebound, report says

U.S. exports of distilled grains with solubles should grow about 2.5 percent this season after declining 11 percent year-over-year in the first half of 2011, according to the Agriculture Marketing Resource Center.

The AMRC expects the U.S. to export about 8.9 million metric tons of DDGs by the end of August 2012. U.S. exports of DDGS will grow about 4.6 percent to 9.2 million metric tons in the year following, said AMRC, an Iowa University-based agriculture research center.

Exports of distilled grains with solubles will grow 2.5% this 2011 season

A decline of DDGS exports to China offset a 16 percent year-over-year increase of the ethanol production byproduct to Southeast Asia during the first half of this year, according to the U.S. Grains Council. China, the largest importer of U.S. DDGS, launched an investigation into alleged dumping of the ethanol production byproduct in January. China's appetite for the material has skyrocketed in recent years as a feed grain for livestock as the country's protein consumption has increased.

U.S. exports of DDGS during the first half of 2011 totaled 4.4 million metric tons, valued at more than $1 billion, according to the USGC. U.S. agriculture has been at the forefront of the country's push to increase exports, with America farms expected to ship $135 billion in harvested products abroad this year.

U.S. exports of DDGS during the first half of 2011 totaled 4.4 million metric tons, valued at more than $1 billion, according to the USGC

DDGS exports to Vietnam, the largest Southeast Asian market for the grain used as animal feed, grew 11 percent between January and August because the country is expanding its swine and poultry industries, said Abel Yusupov, USGC director in Southeast Asia.

"The region is growing increasingly dependent on feed grain imports amid declining domestic crop production and burgeoning feed demand," Yusupov said.

Learn more at: **http://www.joc.com/rail-shippers/us-distilled-grain-exports-will-rebound-report-says**

Financial Focus

Bernanke to Senate Democrats: don't expect more stimulus

Federal Reserve Chairman Ben Bernanke told Senate Democrats on Thursday October 20, 2011 that they should not expect additional monetary stimulus from the Fed, putting pressure on them to pass jobs and deficit-reduction legislation.

Some Democratic lawmakers have urged the Fed to take more aggressive steps to spur the economy and lower the national unemployment rate.

But Bernanke said he's done all he can to boost confidence through monetary policy, putting the ball in Congress's court.

Bernanke said he's

"He's said he's done all he can do on the monetary side, and I think it's

done all he can to boost confidence through monetary policy, putting the ball in Congress's court

probably accurate," said Senate Democratic Whip Dick Durbin (Ill.), who attended the meeting. "Now it's up to us."

A Senate Democratic aide said Bernanke's statement makes it all the more important to pass a $35 billion measure to prevent layoffs to teachers and first responders.

"That's right, we need to pass a jobs bill, and that's what we're trying to do," said the aide.

Bernanke attended the Democrats' weekly policy lunch in the Senate Mansfield room, where he fielded questions from lawmakers anxious about the economic outlook.

Most of the session was devoted to discussing the debt crisis in Europe, which senator's fear could further tighten business credit.

Bernanke told lawmakers that he and other senior U.S. economic officials have recommended to European leaders steps to avoid a financial crisis

Bernanke told lawmakers that he and other senior U.S. economic officials have recommended to European leaders steps to avoid a financial crisis.

Lawmakers said they received a lot of new information on the scope of the problem but declined to say whether Bernanke thought the financial contagion could be contained within Europe. They also declined to discuss his recommendations for addressing the growing crisis.

"There are some critical decisions being made over there that could have an impact on the United States. He did talk about some meetings that are coming up very soon that are very critical when it comes to the future of Greece," Durbin said.

Lawmakers are concerned about the implications of Moody's decision to downgrade Spain's government bond ratings.

"What one always has to be concerned about is a contagion effect. This crisis is manageable but the right things have to be done and the great concern one always has to have is that you get something started that isn't managed, like Lehman Brothers, and the next thing you have is a crisis," said Senate Budget Committee Chairman Kent Conrad (D-N.D.).

Several leading Democrats in Congress have urged more aggressive monetary stimulus from the Fed

Democrats also pressed Bernanke for strategies to revive the domestic economy.

Sens. Dianne Feinstein (D-Calif.) and Barbara Boxer (D-Calif.) quizzed the Fed chief on how to reduce foreclosures, which have left many homeowners under water.

"We also talked with him about how to get more renegotiation of home loans," said Feinstein, noting that in some California counties as many as 55 percent of homes are worth less than the value of their mortgages.

Bernanke said he would submit to Congress a list of legislative recommendations to reverse the tide of foreclosures.

Several leading Democrats in Congress have urged more aggressive monetary stimulus from the Fed. The stock markets reacted negatively when Bernanke unveiled Operation Twist last month, but have since

Operation Twist is designed to flatten the yield curve by buying long-term bonds and selling short-term debt

rallied.

Operation Twist is designed to flatten the yield curve by buying long-term bonds and selling short-term debt. Since the purchase of long-term debt is financed by sales, it does not inject new flows of money into the economy.

“I think it’s a good idea, but I would have gone further,” Rep. Barney Frank (Mass.), the ranking Democrat on the House Financial Services Committee, said in a statement to The Hill last month.

Republicans, however, warned Bernanke that flooding dollars into the economy could trigger inflation.

Read the entire article at:
http://thehill.com/homenews/senate/188901-bernanke-to-dems-dont-expect-more-stimulus

The Edge

There appears to be a lot of cautious optimism remaining late in the season this year despite economic and traffic indicators that point at best to a flat economy. And if one considers the erosion of the value of the dollar we are certainly seeing representative signs of a stagflation type of economy.

Those of us in the transportation arena that solicit services, equipment, rail, truck, barge or ship rates get first-hand knowledge of stagflation. Our dollars or budgets are even at best on the same type of volume commitments but the goods and services we purchase continuously increase. Have you seen a rail, truck or barge rate being offered for less than it was in the most recent past lately? I think not. So what do you do as the person setting in the “hot seat” that buys transportation goods and services for your company?

There is a logical course of action for near term and long term success.

Review, readjust and renegotiate. There are several methods of review but we suggest starting with a quality based method (Crosby) where you review all your transportation costs and their corresponding benefits. For instance, you may consider a truck versus rail option or compare customer deliveries on a just in time basis versus extended time or analyze your cycle time to determine private railcar turn times effect on railcar requirements. The most important item to keep in mind isn’t absolute cost but characterizations of the benefits you receive from your investments (capital or operating).

After you have the analysis complete and the host of data converted to actual information it’s wise to then look at areas that you can readjust to impact benefit expectations. We’ll characterize an example of this by analyzing the railcar delivery cycle. Let’s say you’ve analyzed the railcar delivery cycle and have discovered that there are two areas that create the largest cost denominator in the cycle. For purposes of this example let’s say they are your railroad serving yard and your railcar unload location. You need to unload railcars faster and you need the railroad to pick them up and set them to you more timely. Your review should include methods of unloading railcars (trestles, conveyors, car toppers, rotary dumpers, etc.) and the commitment your serving carrier will make if you commit to a faster unload time. You can then quantify the effects of changing your unload operation and conduct a cost-benefit analysis to readjust the ranking of this action within the analysis.

Much of your analysis will help define a longer term strategic plan that will fine tune your operations and investments over time. If you have options now is the time to renegotiate rates, investments, rail, truck, barge carriers, ocean freight, and port charges before making any investments. You'll find that the review, readjust, renegotiate process will be iterative over the course of time and will be continuously refined as you go forward.

Prior to starting this process you need to be sure to include an executive sponsor at a level within your organization that can effect change where necessary and one that will commit the resources to the process. A cross functional team that touches every aspect of the process is also necessary to insure by-in and success.

Tealinc has led many of these process reviews as a facilitator. If we may help you think your way thru the process feel free to give us a call.

We look forward to earning your business!