

In This Issue

- Railroad & Policy
- Mechanical Brief
- Railroad Traffic
- Industrial Inside
- Financial Focus
- The Edge

Visit us at:
www.tealinc.com

**Kansas City
Southern
announces reduced
forces in
observation of
Thanksgiving**

**If you move rail
equipment with any
regularity, you will
have a derailment**

**I can only imagine
how much I could
have saved my
company in crane
fees, lost
production and
overtime hours for
derailments over
the years**

Railroad & Policy Updates

The Kansas City Southern Railway Company (“KCS”) sent an email to customers on Monday, October 29, 2012 announcing that it will reduce forces on November 22 and 23 in observation of Thanksgiving.

The email directed customers to email any service request during this timeframe to their customer service department at customer_solutions@kcsouthern.com by 10:00 a.m. on November 9.

The notice does further explain that service requests will not guarantee service on these days; however, once all requests are received, the local operation will attempt to secure resources to perform service on the day requested. If no message is received, it will be understood that no service is needed.

As with all your Holiday planning, it’s important that you prepare for any service interruptions you may incur from your rail carriers.

Learn more at:
www.kcs.com

Mechanical Brief with Steve Christian

Anyone involved in any type of railroad operations must deal with derailments. If you move rail equipment with any regularity, you will have a derailment. I have used frogs, blocks, jacks, front end loaders and cranes to re-rail equipment. Even minor derailments are very time consuming. By the time you round up even the most basic equipment and personnel to handle a minor derailment you lose hours. Loaded cars and locomotives can be much more challenging. Sometimes the re-railing process causes additional damage to the roadbed, ties, switch points, etc. When your derailment blocks access in or out of your plant/shop/loading-unloading site, you lose time and money! There is no upside to derailments.

About 15 years ago, I was introduced to a lightweight, portable rerailer unit that I thought was priced above my comfort level. Most of the elements of the portable rerailer were made of aluminum and very lightweight. While I’d heard of this rerailer in the past, I’d never seen or worked with one.

Earlier this year, we were called upon to assist a customer of ours in selecting a rerailer for their very active single track that, although they have made improvements to both their track and their equipment, has experienced problems with derailments. I was assigned the task of assembling a list of solutions and providing suggestions for a product for their line. With my own experience dealing with derailments fresh in my mind, I gladly accomplished the project reviewing available products on the market today and providing options to our customer. Following some consideration, the customer agreed with our assessment and ordered a portable rerailer as well as a one day training session for their team – both which Tealinc helped managed. Following delivery of the material, I arrived on-site finding that the portable rerailer was very simple to assemble and

The hydraulic rerailing system uses an aluminum beam to span both rails. A trolley with a jack sits on the beam under the coupler shank

I expect that derailments are most likely one of the ugly parts of your job and we stand prepared to advise you on solutions.

AAR reports mixed weekly rail traffic for September. Carloads excluding coal were up 3.4 percent over September 2011

the training session simple to understand.

My view is this, if you have derailments, you need a portable rerailer. I can only imagine how much I could have saved my company in crane fees, lost production and overtime hours for derailments over the years. It's faster and safer. I am still kicking myself today that I didn't buy one for my own use 15 years ago! Here's how it works.

- The hydraulic rerailing system uses an aluminum beam to span both rails. A trolley with a jack sits on the beam under the coupler shank. In simplified terms you would:
 - Chain the trucks to the car body
 - Jack up the derailed end of the car (including trucks)
 - Move the trolley towards the center of the track such that the wheel flanges will align with the inside of the rail
 - Lower the jack onto the rail
 - Unchain the trucks
- If the trucks are slewed (crooked), there is a hook-cable-block setup included that uses the traversing cylinder to realign the trucks when the end is jacked. This is very simple, very quick and very safe.
- If you have this unit loaded on a small trailer with a few hardwood blocks and wedges and chains for securing trucks, you should be able to re-rail an end of a locomotive or loaded car in about a half hour without compromising safety!

Care and treatment of the equipment is crucial in my mind. Don't allow anyone to use any part of this setup for any other purpose. I know car knockers. I am one. If they see the opportunity to use this equipment for anything else, they will drag it off. Don't let them do it. Many of the components are aluminum and can be damaged by misuse. Keep everything together and available when a wheel hits the ground.

I expect that derailments are most likely one of the ugly parts of your job and we stand prepared to advise you on solutions. As with all topics rail, Tealinc stands ready to assist you in any way we can.

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

The Association of American Railroads (AAR) [reported October 4, 2012 that] U.S. rail carloads originated in September 2012 totaled 1,152,174 carloads, down 3.7 percent (43,746 carloads) compared with September 2011. Intermodal traffic in September totaled 973,715 containers and trailers, up 2.5 percent (24,126 units) compared with September 2011. September 2012 represents the 34th straight month of intermodal gains.

Commodity groups that saw carload gains in September 2012 compared with September 2011 included: petroleum and petroleum products, up 55.7 percent or 16,586 carloads; crushed stone, sand, and gravel, up 12.3 percent or 9,044 carloads; and motor vehicles and parts, up 5.3 percent or

Petroleum and petroleum products up; crushed stone, sand and gravel up; motor vehicles and parts up

Coal, metallic ores, waste and nonferrous scrap down

Combined North American rail volume for the first 39 weeks of 2012 on 13 reporting U.S., Canadian and Mexican railroads totaled was down 1.4 percent compared with the same point last year.

Trailers and containers were up 4.6 percent compared with last year

Global demand for steel expected to slow in 2013 due to weaker consumption growth in China

3,088 carloads.

Commodities with carload declines in September 2012 were led by coal, down 12.1 percent or 65,867 carloads; metallic ores, down 21.7 percent or 7,531 carloads; and waste and nonferrous scrap, down 13.3 percent or 1,815 carloads. Carloads excluding coal were up 3.4 percent, or 22,121 carloads, in September 2012 over September 2011.

“September rail traffic is again a mix of good news and bad news,” said AAR Senior Vice President John T. Gray. “The primary bad news is that coal carloads continue to struggle, due to the various economic and regulatory constraints faced by coal-fired power plants. The good news is that many other key rail traffic categories are offsetting coal’s decline, including petroleum and petroleum products, motor vehicles, crushed stone and sand, and lumber. Intermodal volume has risen for 34 straight months and could very well set a new record this year.”

For the first 39 weeks of 2012, U.S. railroads reported cumulative volume of 11,042,405 carloads, down 2.5 percent from the same point last year, and 9,200,508 trailers and containers, up 3.6 percent from last year.

Canadian railroads reported 82,983 carloads for the week, up 1.3 percent compared with the same week last year, and 54,995 trailers and containers, up 6.4 percent compared with 2011. For the first 39 weeks of 2012, Canadian railroads reported cumulative volume of 3,004,841 carloads, up 2.7 percent from the same point last year, and 2,007,347 trailers and containers, up 7 percent from last year.

Mexican railroads reported 14,675 carloads for the week, up 1.7 percent compared with the same week last year, and 12,115 trailers and containers, up 16 percent. Cumulative volume on Mexican railroads for the first 39 weeks of 2012 is 559,273 carloads, or flat compared with the same point last year, and 384,490 trailers and containers, up 18.1 percent from last year.

Combined North American rail volume for the first 39 weeks of 2012 on 13 reporting U.S., Canadian and Mexican railroads totaled 14,606,519 carloads, down 1.4 percent compared with the same point last year, and 11,592,345 trailers and containers, up 4.6 percent compared with last year.

Visit the AAR at:

www.aar.org

Industrial Inside

Global demand for steel, used in car making and construction, will slow next year because of weaker consumption growth in China and uncertainties from the European debt crisis, the World Steel Association said.

World steel consumption will grow 2.1 percent to 1.409 billion metric tons (1.553 tons) this year and 3.2 percent to 1.455 billion metric tons in 2013,

China has experienced a worse-than-expected slowdown in demand this year after more than a decade of steep consumption growth, exacerbating the industry's outlook

"In the U.S., apparent steel use has grown this year due to improvements in the construction sector, a better-than-expected development in the automotive industry, and expanding energy production"

the World Steel Association (Worldsteel) said on Thursday. That compares with 6.2 percent growth last year.

"The outlook is clouded by uncertainties subject to a number of risks. We expect the situation to gradually improve," Hans Jurgen Kerkhoff, chairman of Worldsteel's Economics Committee, said at its annual conference in New Delhi.

Steel consumption in China, the world's largest producer and consumer of steel, will grow less than previously expected in 2012 and 2013, to 639.5 million metric tons and 659.2 million metric tons, respectively.

China has experienced a worse-than-expected slowdown in demand this year after more than a decade of steep consumption growth, exacerbating the industry's outlook.

"Steel demand in China is expected to grow slower as both the construction and export sector have weakened considerably," Kerkhoff said.

"We expect steel demand could accelerate next year on the back of fiscal stimulus."

Worldsteel expects apparent steel consumption in the European Union to contract 5.6 percent this year to 144.5 million metric tons as the region's sovereign debt problems continue to drag on the area's economy.

In 2013, it forecasts steel use in the region to grow 2.4 percent to 148 million metric tons.

Steel use is expected to expand in Japan, the second-biggest steel producer, by 2.2 percent this year because of reconstruction efforts in the wake of the March 2011 earthquake and tsunami.

But that may decline 2.9 percent next year as companies struggle with a strong yen and falling exports.

In the U.S. market, where demand has picked up in recent months, steel consumption is forecast to grow to 96.5 million metric tons in 2012 and 100 million metric tons in 2013.

"In the U.S., apparent steel use has grown this year due to improvements in the construction sector, a better-than-expected development in the automotive industry, and expanding energy production," Kerkhoff said.

Worldsteel forecasts India's consumption to grow 5.5 percent in 2012 to 73.6 million metric tons and by a further 5 percent in 2013 on rising urbanization and infrastructure investment. Consumption gained 7.5 percent last year.

The Middle East and North Africa will see steel consumption grow 4.9 percent this year after a 2 percent drop last year following political turmoil that disrupted manufacturing activity in the region.

Worldsteel expects growth there to accelerate further in 2013, with apparent steel use up 6.7 percent to 66.9 million metric tons.

Read more at:

<http://www.reuters.com/article/2012/10/11/us-worldsteel-outlook-idUSBRE89A06S20121011>

Fed pledges to maintain stimulus in last meeting before the presidential election

Unemployment remains stubbornly high, the domestic economy is growing slowly, the global economy is struggling and a so-called fiscal cliff looms at the end of the year

“The committee is concerned that, without further policy accommodation, economic growth

Financial Focus

The Federal Reserve said [October 24, 2012] that it would continue its economic stimulus campaign, aimed at reducing unemployment, amid fresh evidence of a housing recovery that could help to bolster those efforts.

Sales of new homes rose 5.7 percent in September to the highest level since 2010, when the government was offering tax credits to first-time buyers, the Commerce Department reported October 24, 2012. The report joins other recent data showing rising prices and increased construction in affirming that the housing market is recovering from its prolonged downturn.

The Fed acknowledged that consumer spending, including spending on housing, has strengthened, but it said that it remained convinced that its efforts were necessary to bolster an inconsistent and lackluster recovery.

Unemployment remains stubbornly high, the domestic economy is growing slowly, the global economy is struggling and a so-called fiscal cliff looms at the end of the year.

“The committee is concerned that, without further policy accommodation, economic growth might not be strong enough to generate sustained improvement in labor market conditions,” the Fed’s policy-making committee said in a statement released after a regularly scheduled two-day meeting.

This was the Fed’s last meeting before the presidential election. In holding its course, the Fed again defied the criticism of the Republican nominee, Mitt Romney, who has described the central bank’s efforts as ineffective and inflationary and who has promised to replace its chairman, Ben S. Bernanke.

Indeed, the statement from the policy unit, the Federal Open Market Committee, once again emphasized that it remained prepared to expand its efforts “if the outlook for the labor market does not improve substantially.”

The decision was supported by 11 members of the committee. The only opposition came from Jeffrey M. Lacker, president of the Federal Reserve Bank of Richmond, who has dissented at each meeting this year.

The Fed announced after its last meeting, in September, that it would buy \$40 billion in mortgage securities each month until the jobs outlook improved, a significant expansion of its stimulus campaign. It also said it intended to keep short-term interest rates near zero at least until mid-2015.

The new policy is aimed specifically at helping the housing market by reducing interest rates on mortgage loans. The more people who buy homes, the greater the benefit to the housing market and to the economy in general.

might not be strong enough to generate sustained improvement in labor market conditions”

A number of Fed officials also argue that the current policy would be more effective if the Fed defined a clear target for its efforts, like a level of unemployment or economic output. But consensus about the right target so far has proved elusive

The housing market remains depressed by historical standards. New home sales have reached an annual pace of 389,000, better than the last two years but significantly worse than any other year since 1963.

And housing remains anchored to employment. People need jobs to buy homes.

“All the housing data has taken a turn for the better. Clearly, mortgage rates at such a low level and what appears to be an increase in banks’ willingness to make loans has boosted activity off the lows,” Steven Richiutto, chief economist at Mizuho Securities, wrote in a note to clients. “But I would still not read too much into this unless employment picks up. We have seen false starts before.”

The Fed’s next meeting, scheduled for Dec. 11 and 12, will be more consequential. Under a separate program begun last year, the Fed also is buying about \$45 billion in long-term Treasury securities each month. Those purchases are scheduled to end in December. Officials have said they will consider extending the program depending on the condition of the economy.

The central bank appears determined to press its campaign until it is certain of the results, so long as inflation remains under control. It has been chastened by a series of misjudgments, after declaring several times in recent years that the recovery was gaining strength only to conclude that more stimulus was needed.

William C. Dudley, the president of the Federal Reserve Bank of New York, said in a speech this month that, as a consequence, the Fed had not done enough to support the economic recovery. “With the benefit of hindsight,” he said, “monetary policy needed to be still more aggressive.”

A number of Fed officials also argue that the current policy would be more effective if the Fed defined a clear target for its efforts, like a level of unemployment or economic output. But consensus about the right target so far has proved elusive.

Learn more at:

http://www.nytimes.com/2012/10/25/business/economy/fed-affirms-low-rates-and-sees-moderate-growth.html?_r=1

The Edge

Tealinc knowledge position is unique in that our experience encompasses a wide swath of the railroad industry. We have expertise in railroad rate setting (tariff and contract), rail operations, unit train planning and dispatch, crew and operations personnel management, mechanical repair and refurbishment of railcars and locomotives and financing and financial modeling along with a host of other learned traits installed over decades of being in this industry.

We often manage operations, provide railcars and locomotives and consult to industries that ship or receive commodities by rail. In most cases we find strong strategic direction being provided by upper management. Face it, to have survived two recessionary periods in the last decade managers have generally gotten good at what they do or they have been removed.

Generally as we delve deeper into a company's operations we often find great employees that haven't been provided with a clear direction of management requirements, misinterpretation of expectations or lack of training. This isn't a fault or blame issue, it is just part of the culture in many cases. This is generally the management course where the larger picture is explained and result expectations are communicated to employees but the middle piece, how you get from the big picture to the results isn't always ferreted out in enough detail to describe how to get from the plan to the execution.

We at Tealinc have spent a good deal of time this year helping companies thru either consulting or thru outright helping management navigate this "middle piece" generally called execution of the plan. Communication of the plan thru key performance measures (financial and operational), continuous improvement and constructive yet critical feedback are important when trying to implement a plan.

We've received some feedback this year we're happy to share with you our readers are:

- At a strategic level dual railroad access for plant locations yield up to 20% better rail rates.
- Railroads generally price in a duopolistic model. Bundling competing locations can help even if your plants are captive.
- Operations planning down to the daily (day of week and hourly in some cases) internal rail, truck, barge movements and requirements to match up with production or consumption are very important. Tedious by nature and seemingly ever changing if you don't plan to succeed by default you're planning to fail.
- Proactively managing railcars (railroad and private) is as important to your supply chain success as is managing the production or processing of a product.
- An inventory management system that doesn't include product enroute isn't an inventory management system.
- Develop a spreadsheet modeling your operations. Much like carpentry it's easier to measure twice and cut once to obtain a more accurate result of your expected end goal.
- Provide a continuous feedback loop for key cost structures such as rate structures, fuel usage, product handling, product stock out, employee effectiveness, demurrage, order – in and detention charges.
- Use the Crosby Quality Model. Measure the exceptions and manage them to a point of economic indifference.

We appreciate the opportunity to create value for you and your team as you continue to execute your plan.

We look forward to earning your business!