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Major railroads serving the Gulf Coast continue to repair and restore service in the region.

CSX estimates third-quarter losses associated with Katrina to negatively impact operating income around $25 million.

Railroad Updates

The major railroads serving the Gulf Coast states continue to repair the damage caused by Hurricane Katrina and restore service to the region.

Jacksonville, FL-based CSX Corp. said it's continuing to re-route traffic around storm-affected areas and expects repair estimates to top $250 million, including the capital costs of rebuilding the rail infrastructure, losses from business interruption, and other costs associated with the storm damage. CSX said it currently estimates third-quarter losses associated with business interruption and other costs would negatively impact operating income by around $25 million.

Yet Tony Ingram, CSX's executive VP & COO, remains upbeat about the railroad's ability to cope with the long-term damage to its systems caused by Katrina. "The flexibility of our network has enabled us to respond quickly to the needs of our customers whose freight normally travels across the affected area," he said. "Service to local customers will also be restored as repairs are made in phases over an estimated six-month period. The rerouted trains will be brought back to the original lines when all major repairs are completed."

Omaha, NE-based rail giant Union Pacific added that local service to UP customers on its line between Livonia, LA, and Avondale, LA, is up and running but that it is still detouring 14 trains that normally use the New Orleans gateway. Memphis, TN, is primarily being used for detours to eastern carriers, with St. Louis, MO as the secondary gateway.

Norfolk, VA-based Norfolk Southern Corp. operated its first westbound train from New Orleans Sept. 13 and then gave it to UP at Avondale as UP is interchanging four trains a day with the NS, two west and two east, to help beef up rail service. Because of the damage to NS buildings in New Orleans, UP is also providing temporary office space, communication equipment and crew lodging in Avondale.

UP added that it's moved 135 trailers loaded with bottled water now being distributed by truck to Katrina victims and response workers, along with several special fuel trains delivered to eastern railroads. It is also coordinating all relief material movements through the Federal Emergency Management Agency (FEMA), including the movement and staging of 20 refrigerated box cars UP donated to support the relief effort.

The preceding report by Sean Kilcarr was published by Fleet Owner on Monday, Sept. 19, 2005.

AAR's Outlook

The nation's freight railroads are hauling more freight than ever before and are charging less than they did 25 years ago to do it, Edward R.

AAR Outlook - Railroad productivity up 200%; rates dropped 60% since 1980

To meet growing demand, railroads have hired thousands of employees, purchased new locomotives and added hundreds of miles of double track.

Hamberger, president and Chief Executive Office of the Association of American Railroads (AAR), told a meeting of more than 500 rail customers and business associates during a railroad customer service forum in St. Louis.

“Since 1980 our productivity is up nearly 200 percent and yet our rates have dropped 60 percent, saving our customers $10 billion a year,” he added. "This is largely due to the Staggers Act, which partially deregulated the industry and gives railroads a good foundation for meeting what is expected to be another record fall for rail freight transportation."

"The resilience and preparedness demonstrated by the railroad industry in response to Hurricane Katrina exemplifies our ability to keep the system fluid. We have and will successfully handle all the challenges set before us," Hamberger said.

The industry played an important role in Hurricane Katrina relief — working day and night to assist in the region's recovery efforts through donations, manpower and the emergency delivery of life-sustaining supplies, and evacuation assistance. Within hours of Katrina’s passage, rail crews were out assessing damage, repairing track and bridges and clearing trees and other debris from hundreds of miles of rail line, because rail service is essential both to the national economy and the recovery of the Gulf Coast. Within a matter of days, the railroads had restored service to most of their affected routes.

Despite the devastation caused by Katrina, rail traffic continues to set records.

With demand continually on the rise, this year’s focus has been on increasing capacity. Railroads have hired – and deployed – thousands of new employees, purchased the largest number of new locomotives in more than two decades and added hundreds of miles of double track to meet continually growing demands.

All AAR press releases are available via the Internet at **www.aar.org**

Railroad Traffic

Freight traffic on U.S. railroads remained above year ago levels during the week end September 10, the Association of American Railroads (AAR) reported.

Volume in the most recent week was affected by continued disruptions caused by Hurricane Katrina while traffic in the comparison week from last year was affected by disruptions caused by Hurricane Francis. Both weeks included the Labor Day holiday.

Intermodal volume for the week totaled 204,817 trailers or containers, up 8.5 percent from the comparable week last year. Container volume gained 9.1 percent from last year while trailer volume rose 6.7 percent.

Carloads of nonmetallic minerals, farm products, coke, crushed stone, sand and gravel, lumber and wood up; metals, waste and scrap down.

Carload traffic, which doesn't include the intermodal data, was up 5.9 percent from last year, with carload traffic up 11.8 percent in the East and 1.8 percent in the West.

Total volume was estimated at 32.3 billion ton-miles, up 6.3 percent from last year.

Fourteen of 19 carload commodities were up from last year, with the greatest gains reported in loadings of nonmetallic minerals up 102.7 percent; farm products other than grain up 55.2 percent; coke up 32.6 percent; crushed stone, sand and gravel up 29.6 percent; and lumber and wood products up 13.4 percent. On the negative side, loadings of metals were off 5.9 percent and waste and scrap declined 2.4 percent.

Cumulative volume for the first 36 weeks of 2005 totaled 11,972,404 carloads, up 1.4 percent from 2004; 7,924,993 trailers or containers, up 6.3 percent; and total volume of an estimated 1.15 trillion ton-miles, up 2.3 percent from last year.

Combined cumulative volume for the first 36 weeks of 2005 on U.S. and Canadian railroads totaled 14,691,595 carloads, up 1.1 percent from last year and 8,454,049 trailers and containers, up 5.7 percent from last year.

This press release is available weekly via the Internet at: **http://www.aar.org**

Experts estimate New Orleans concrete consumption to exceed 4 million tons.

Industrial Inside

The scale is enormous. Estimates are that more than 260,000 homes were destroyed. The disaster was unusual in that more homes were destroyed than damaged, a result of unprecedented flooding.

The massive rebuilding from Katrina is expected to take years, driving up the cost of materials and labor, already in tight supply, across the U.S. "I expect the impact on construction to be nationwide and long lasting," said Ken Simonson, chief economist of the Associated General Contractors of America.

Katrina wiped out Southern pine mills and destroyed tens of millions of feet of lumber sitting on Gulf docks. About half of the cement imported into the U.S., or 12% of total consumption, comes through the now damaged and congested Gulf Coast ports. Another 3% is produced in the region. Current estimates are that Katrina destroyed $100 billion

Cement companies report challenge to find railcars, barge and trucks to ship cement.

Prices for plywood, wood composite panels, lumber up.

Construction market has potential to adversely affect transportation.

in infrastructure but getting a handle on the full damage from Katrina and how much material will be needed to rebuild is not yet known.

What is known is not good. Among materials, cement was already in short supply nationwide and will likely stay that way for some time, said the Portland Cement Association. Before Katrina hit, concrete prices had risen 15% this year. U.S. cement consumption rose 7% last year to a record 120 million metric tons.

Analysts predict rebuilding the Gulf Coast region after Hurricane Katrina will push cement consumption even higher then current record levels. Experts estimate that rebuilding New Orleans will require at least 4 million tons of cement during the next four to five years. However, disruption to the cement supply due to port closures in New Orleans is expected to have a minimal effect.

Some cement companies report the additional transportation challenge of finding available trucks, rail cars, and barges to ship the cement to its final destination

Wood is plentiful but the supply chain has been stretched thin as home builders and construction companies were essentially running on just-in-time inventory. Before Katrina, plenty of wood was in the distribution pipeline, allowing builders to confidently keep inventories low, thus helping save money on storage costs. Sensing that wood supplies will tighten in the wake of Katrina, builders are ordering as much as they can as fast as they can.

Prices for plywood and wood composite panels — essential ingredients for building — have shot up 32% in the past two weeks. Lumber prices are up 12%.

Gypsum, used to create drywalls and cement board, was also in tight supply. Gypsum Today reported "production could gear back up as utilities come back into service and employees are able to return."

Perhaps of greater concern, it said, is the damage done to industrial hydrogen production, key to making steel. Pennsylvania-based Air Products & Chemicals, a leading supplier of liquid nitrogen, reported on Aug. 31 that its damaged facilities in New Orleans would affect its ability to "supply customers with hydrogen from the New Orleans plant for an extended period of time."

Continue to watch the industries as demand caused by Katrina will adversely affect the transportation market including decreased rail and trucking equipment and increased freight rates.

Article adapted from:
http://www.cement.org/newsroom/Katrina%2009152005.asp
http://www.investors.com/editorial/IBDArticles.asp?artsec=16&issue=20050915

Financial Focus

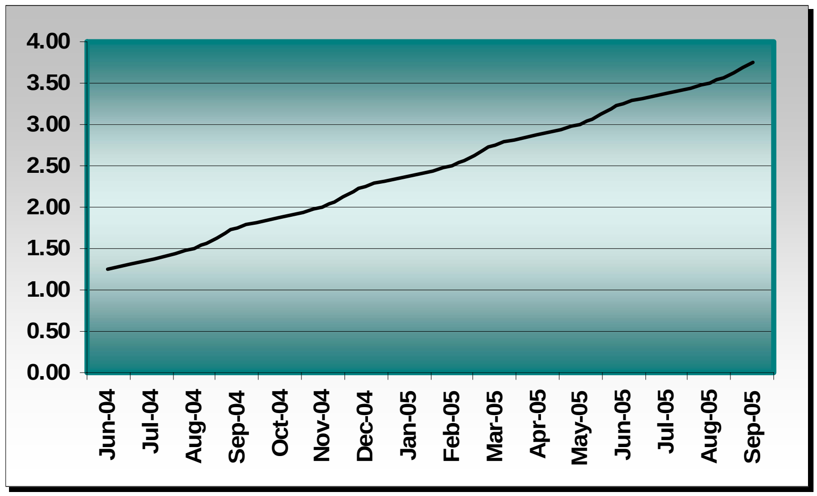
Federal Interest Rate pushed to 3.75 percent

Inflation mostly in prices of energy and housing.

Fed's may push rates as high as 5 percent.

The Federal Reserve's elite committee raised its benchmark interest rate by a quarter-point September 20, virtually promising that its anti-inflation campaign would continue.

The Fed nudged the rate to 3.75 percent, adding to the costs of borrowing money for the 11th time in as many meetings, stretching back to last summer. While the decision was expected, an accompanying statement indicated a somewhat surprising determination to keep pushing rates upward.



The Fed views the economy as strong and the impact of Hurricane Katrina as regional and temporary.

During spikes in energy costs three decades ago, the Fed kept rates low to ease economic strains. The result was stagflation: a combination of sluggish growth, high unemployment and inflation. "These guys have got to be thinking about the 1970s," Duy said. "Once you let inflation expectations get built into the system, it becomes very difficult to dig them out."

Reports show inflation mostly in prices of energy and housing. Health care increases have slowed, and food costs have been steady. But post-Katrina rebuilding may push up building material prices. Along with energy's spike, that led consumers in last week's University of Michigan survey to say they expect a significant increase in inflation.

That may be enough to persuade the Fed to think about lifting rates even higher than its pre-Katrina targets — perhaps as high as 5 percent.

Learn more at:
http://www.ajc.com/business/content/business/0905/21bizfed.html

October 19, 2005 is the STB public hearing date at its offices in Washington DC. “The purpose of the public hearing will be to examine the impact, the effectiveness, and the future of the Staggers Rail Act of 1980 (“Staggers Act”).” If you need information contact the STB at 202-565-1609.

I’m not a proponent of regulation (look what it’s done for us with the TSA – ugh!). However I am a proponent of being informed. If you’re a rail shipper or receiver it may make some sense to attend and see what the “hot buttons” are that drive the railroads. It could be useful in your next set of negotiations.

Changing subjects, I also read a recent article about “risk” not being a four letter word in a business publication. The gist of the article is that with a balanced risk outlook, risk was good for company officers and stockholders in producing financial returns to those folks. However it did also point out that a lack of integrity of the company officers (e.g. Enron and WorldCom) will also usurp any logical risk portfolio. My point in pointing this out is that a balanced risk portfolio usually makes a lot of sense in rail transportation. Making informed decisions on building out track for plants, building new plants or infrastructure, leasing or buying railcars and or locomotives are all items that have risk factors attached to them. A company that has integrity throughout should have no problems in standing behind the decision to proceed (or not) with an investment in an item that has “risk” associated with it. At this time I know of no single measure that provides an integrity measure of the risk a company or its leaders take. However in these times I would expect one to be forthcoming in much the same vein as we got Sarbanes-Oxley. If you need help in measuring risk for a potential future investment give us a call, we can measure tangible items.

We look forward to earning your business!