Touchbase

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BNSF introduces a new Rock Demand Forecasting Tool effective October 1

CSXI's monthly fuel surcharge to drop below 20 percent for the first time since April

According to recent report, railroads ready for upcoming peak shipping season

Railroad Updates

Beginning October 1, 2006, the BNSF is releasing a new Rock Demand Forecasting Tool. This web-based application is said to allow unit train customers to forecast their weekly and monthly demand by origin/destination pairs. The application has two main objectives:

1. Automate and streamline the planning process for customers and the BNSF rock desk. When customers enter their anticipated demand into this application, BNSF will be better able to anticipate customer needs and plan for the required trains.

2. Create a central location where BNSF and its customers will be able to view metrics that detail how well BNSF has met the customer demand. With variance reports and exception logging, this tool will allow BNSF to analyze existing and potential service issues and focus our efforts on improving our service product.

Visit the BNSF at:
www.bnsf.com

CSX Intermodal's October Fuel Surcharge to Drop

CSXI reports that its October fuel surcharge is dropping 5.5 percent to 17.5 percent compared with September's surcharge. The last time CSXI's monthly fuel surcharge fell below 20 percent was in April when the surcharge was 17.5 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, Sept. 25) 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 Sept. 25, the DOE reported a diesel retail price of $2.59 per gallon.

Effective Oct. 2, the 17.5 percent surcharge applies to CSXI's ramp-to-ramp, ramp-to-door, door-to-ramp and door-to-door rates. The drayage-only fuel surcharge for October will be 23 percent.

Read more at:
http://www.progressiverailroading.com/freightnews/article.asp?id=9533

An Upbeat Rail Customer Service Conference

According to industry representatives participating in the 2006 North American Railroad Customer Forum on September 13, railroads are well prepared for the upcoming peak shipping season. According to a shipper survey released last month by Bear Stearns, "Survey results indicate that rail service levels improved on both a sequential and year-

Growth in railroad traffic contributed to driver shortage in the trucking industry, high fuel prices, growth in international trade, and increased demand for coal

Rule 88 revisions for increased car life status---65 year cars

Units may operate for an additional 40 years of life from the date that units are upgraded up to a maximum of 65 years from the original date built

over-year basis."

The financial service firm also noted that shippers were also optimistic about rail services for the peak shipping season, with 72 percent expecting service levels to be stable or improved over the same period last year

Railroad executives told those in attendance that the industry has sharply increased capital expenditures to increase capacity and improve efficiency. This year, railroads are putting a record $8.3 billion into capital improvements to add track, improve signals, and buy new locomotives and freight cars.

Although there have been some reports of a slowing economy, most of the railroads at the conference said that their traffic remained generally strong. Contributing to the growth were the continued driver shortage in the trucking industry, high fuel prices, the growth in international trade, and increased demand for coal. Some soft spots were reported in shipments related to the auto industry and home construction.

Last year, railroads set records for total volume, coal and intermodal shipments. All three are up this year, with total volume up 2.7 percent, coal up 4.5 percent and intermodal up 6.4 percent.

Read the entire article:
http://www.aar.org/ViewContent.asp?Content_ID=3843

AAR Updates

On November 10, 2005, Circular Letter C-10203 was issued to solicit industry comments on a proposal that established criteria that could be followed to obtain increased service life beyond 50 years. Effective on October 1, 2006 and included in the October, 2006 Supplement to the Office Manual will include:

> Units built on or after January 1, 1964 are eligible to continue in interchange service beyond 50 years from the original date built, provided that proof of compliance… is provided for verification by the Equipment Engineering Committee. Proof of compliance, including verification that the units do not have any structural defects or weaknesses, must be filed with the Chief – Technical Standards, TTCI, prior to when units are upgraded under the provisions of this rule. Units may operate for an additional 40 years of life from the date that units are upgraded up to a maximum of 65 years from the original date built. The services in which the units are expected to operate when older than 50 years are to be identified in the application. Inspections and fatigue tests are to be based on units operating in comparable services. If the units are later operated in other services than those identified in the application, the Chief – Technical Standards, TTCI is to be notified. The Equipment Engineering Committee may decide to modify the Increased Life Status of the affected units as a result. The proponent must

Effective October 1 the Car Repair Facility Labor Rate will be $84.29, up 0.3% increase from the July 1 rate of $84.03.

Rail Traffic up 1.1 percent in August compared to same time last year

Rail traffic volume overall has significantly outpaced 2005 year-to-date

Total volume on U.S. railroads was estimated at 1.17 trillion ton-miles, up

independently obtain authorization from the Federal Railroad Administration to operate beyond 50 years from the date originally built. Evidence that the Federal Railroad Administration has granted authorization to operate beyond 50 years from the date originally built must be provided before final approval of Increased Life Status will be granted. Increased Life status applies to the carbody only and does not extend other age limits that may apply to specific components.

There are some issues that still remain to handled by the Arbitration and Rules Committee concerning DV for 65 year old cars. Those will be taken up as possible revisions to Rule 107 in October. Any decisions reached on Rule 107 revisions will similarly be published by Circular Letter.

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

Railroad Traffic

U.S. railroads originated 1,701,997 carloads of freight in August 2006, up 19,032 carloads (1.1 percent) from August 2005. U.S. railroads also originated 1,247,653 intermodal units in August 2006, an increase of 73,154 trailers and containers (6.2 percent) over August 2005, the Association of American Railroads (AAR) reported today.

Eight of the 19 major commodity categories tracked by the AAR saw U.S. carload increases in August 2006 compared to August 2005. Commodities showing carload gains in August 2006 included coal (up 6.3 percent); metals and metal products (up 13.6 percent); and grain (up 4.5 percent). Commodities showing carload decreases in August 2006 included motor vehicles and equipment (down 12.0 percent); coke (down 20.6 percent), and nonmetallic minerals (down 13.6 percent).

For the first eight months of 2006, total U.S. rail carloads were up 1.5 percent, as year-over-year increases in coal (up 4.5 percent), and metals and metal products (up 9.5 percent, among other commodities, offset declines in nonmetallic minerals (down 19.4 percent) and motor vehicles and equipment (down 3.5 percent), among others.

"Rail traffic volumes reflect an economy that is growing at a moderate pace, but is a bit sticky in certain sectors," noted AAR Vice President Craig F. Rockey. "Led by coal and intermodal, volume overall has significantly outpaced 2005 year-to-date, and railroads are working hard to serve the needs of their customers as safely, reliably, and efficiently as possible."

U.S. intermodal traffic, which consists of trailers and containers on flat cars and is not included in carload figures, was up 495,396 trailers and containers (6.4 percent) for the first eight months of 2006 to 8,215,572.

2.7 percent from the first eight months of 2005

Combined cumulative rail volume for the first 35 weeks of 2006 on 13 reporting U.S. and Canadian railroads totaled 14,388,422 carloads, up 1.0 percent from last year, and 9,789,698 trailers and containers, up 6.3 percent from 2005's first 35 weeks.

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

Recent USDA Projection for the largest U.S. corn crop ever- some still nervous about the size of this years harvest

Industrial Inside

Despite the recent USDA projection of the second largest U.S. corn crop ever, the market remains nervous about impact of the past summer's heat on the size this year's harvest because of mixed early yield reports that have surfaced so far this fall. The grain stocks report on September 29 has revealed even a smaller old-crop corn carryover supply being available for the coming year has added to this nervousness.

Darrel Good, University of Illinois Extension grain marketing economist, said the nervousness was more of a perceived threat than an actual one.

> We've picked up a wet pattern moving through the Corn Belt. It looks like it's going to really stretch harvest out if the pattern continues," he said, adding that the threat was more perception than reality. "The weather has to get pretty bad for a long period of time before I think we would realize significant production losses.

A 2005 study by DOE's research arm has found ethanol from corn yields 35% more energy than it takes to produce.

After June's unexpectedly low quarterly corn stocks, which prompted the USDA to boost its 2005/06 feed usage outlook, this summer's build up of cattle in feedlots (+10%) and steady hog slaughter with only a modest decline in poultry numbers (1.5-2%) suggests this past summer's feed demand could be 90-100 million bu. higher than the current projection.

After a spring maintenance downturn, ethanol output rebounded sharply (up 8.8% in June) this summer because of record U.S. gasoline prices returning this industrial demand to its 1.6 billion bu yearly level. In exports, the USDA's recent upward adjustment has likely capture this past quarter's strong shipment pace of 626 million bu., the largest summer overseas corn demand since 1978/79's 678 million pace.

"I think the whole backdrop here is the huge demand for corn from the ethanol industry. That is what keeps everybody very jittery and quite bullish."

"There's not quite as much incentive to store the crop as there was earlier," said Good. "I think the whole backdrop here is the huge demand for corn from the ethanol industry. That is what keeps everybody very jittery and quite bullish."

With 2006/07's overall demand projected to up 5.3% to 11.915 billion bu because of 48% expansion in ethanol plant capacity already under

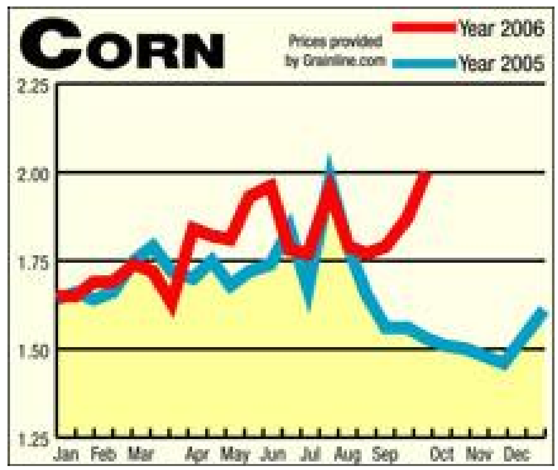
Analysts believe that producers should continue to hold sales at 35-40% for the 2006/07 crop

"It is really going to be important in 2007 to see some confirmation that corn acreage will jump big time next year."

Central bank keeps key interest rate at 5.25% for 2nd straight meeting, cites slowing economy

construction and the lowest world coarse grain stocks since 1983 strengthening overseas demand, every bushel of the 2006 harvest already has a place for it to be used in the coming year. Because of this fact, the mixed field reports on yields so far in this year's harvest (13% thru 9/24) have been a bit disconcerting but it remains early. However, next month's production report will likely need a 2-3 bushel jump in its yield to build any modest stock improvement to quell many nerves.

Analysts believe that producers should continue to hold sales at 35-40% for the 2006/07 crop. Downside December risk to the $2.35-$2.45 area still exists, but livestock feeders and end users should continue accumulating your first half 2006/07 cash needs on setbacks because of corn's substantial upside potential so it can attract an additional 3.5 to 5 million acres in 2007 to try to meet this market's strong demand needs in the 2007/08 crop year.



Despite USDA's Sept. 12 Crop Production report indicating 2006 corn production could easily reach 11.1 billion bushels, the trade is nervous about the impact of ethanol use. Good expects that corn for ethanol production will reduce ending stocks significantly. "One of the jobs of the market is to make corn attractively priced so producers increase their acreage quite a bit next year," he said. "It is really going to be important in 2007 to see some confirmation that corn acreage will jump big time next year."

Article adapted from:
http://www.farmandranchguide.com/articles/2006/10/02/ag_news/markets/market01.txt and **http://www.cbot.com/cbot/docs/76290.pdf**

Financial Focus

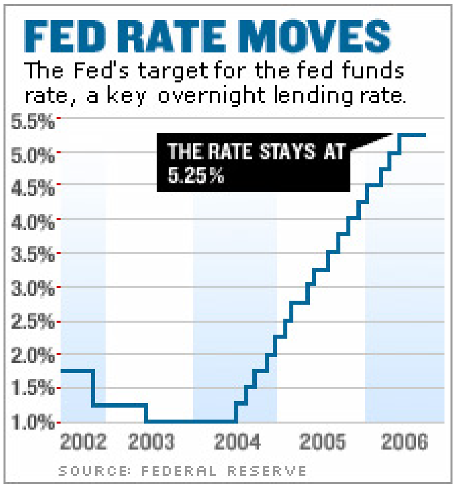
The Federal Reserve held interest rates steady at 5.25 percent during its meeting September 20 and acknowledged that the economy was slowing, a sign the central bank may not need to raise rates further anytime soon. This was the second straight meeting where the Fed decided to leave rates alone after raising them 17 straight times starting back in June 2004.

The decision was widely expected on Wall Street and with the housing

Investors say there is a 90 percent chance that the Fed will keep rates at 5.25 percent at its next two meetings in October and December

Fed could maintain what a "plateau policy"- leaving rates alone for an extended period of time

market slowing and inflation showing signs of cooling, some economists say the Fed could start cutting rates as early as next year.



But other analysts said calls for Ben Bernanke & Co. to start cutting rates soon are probably premature. Investors are now betting on more than a 90 percent chance that the Fed would keep rates at 5.25 percent at its next two meetings in October and December. “The market is betting on the economy slowing enough for the Fed to cut rates but we don't see anything in the immediate future to indicate that," said Steve Van Order, chief fixed income strategist with Calvert Funds in Bethesda, Md.

But the Fed did appear to admit in its widely watched statement that it's now more concerned with a slowing economy than inflation. "The moderation in economic growth appears to be continuing, partly reflecting a cooling of the housing market," the Fed said, adding that "inflation pressures seem likely to moderate over time, reflecting reduced impetus from energy prices, contained inflation expectations, and the cumulative effects of monetary policy actions."

The Fed's had a tough job trying to try to slow the economy enough to keep inflation at bay without killing off growth but some analysts say the Fed may already have raised rates too far, setting the stage for much slower growth, or even a recession, especially with the housing market slowing. Still, the recent drop in oil prices could make things a bit easier for the central bankers. It will probably lessen the risk of a pickup in inflation as well as reduce the risk of consumers cutting back on spending due to high energy prices.

Subodh Kumar, chief investment strategist with CIBC World Markets, said the Fed could maintain what he called a "plateau policy" of leaving rates alone for an extended period of time since neither higher inflation nor the threat of a housing-led recession is that big of a worry.

Learn more at:
http://money.cnn.com

The Fed paused a two-year-long rate hike campaign in August (after 17 quarter percent increases each of the last 17 consecutive quarters) and voted 10-1 to stay on hold when it last met on September 20. It looks like interest rate control efforts by the Fed are having the desired effect of slowing inflation.

Housing starts have declined five months in a row (data ending with August 2006) and have not been on such a decline for the past 11 years. Auto makers are revamping to better match supply and demand. And even oil prices have started to decline from record highs of $78.40 per barrel to just under $60 per barrel more recently.

In the rail transportation world we'd have to characterize our ups and downs as:

- ❖ Rail Rates continue to climb. Only those with dual access and non-duopolistic pricing are having a chance to remain in the arena of reasonableness where rates are concerned.

- ❖ Fuel Surcharges continue to edge up. This we have to continue to expect until we run our course on crude oil prices. We should see declines in fuel surcharges in the next 60 or so days with December to January increases as the fall oil use season (especially fuel oil) begins to climb.

- ❖ Rail inputs continue to edge up. Ties, track infrastructure and industrial development still come at a hefty price. The only consolation is if you can afford to build it at these prices times should only get better and profitability should increase as you drive margins from the operating side (versus the capital side) of your investment.

- ❖ Railroads continue to move more traffic. Railroads really are investing in more infrastructure and the amount of traffic moved proves that they are also learning how to use their enhanced rail lines. It's interesting to see the mix though as intermodal traffic continues to set new weekly records and some of the fundamental items such as lumber and grain reflect interest rates, housing starts and program driven (e.g. Renewable Fuels – Ethanol; Export Enhancement; etc) demand.

- ❖ Planning is more complex. Railroading, planning for rail transportation (and barge and truck) is probably as complex as this 20 year veteran has ever seen it. There are a lot more variables that move more quickly and independently than ever presented in the past.

With the complexity of planning it's a good idea to compile a list and understanding of what you'll need to succeed in 2007 and start compiling a measure (or way to measure) the impact of those items on your business. If we can be of assistance in your planning process please don't hesitate to give us a call.

We look forward to earning your business!