Touchbase

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Out & About with Tealinc!

Tealinc, Ltd. President, Julie Mink, and Manager Value Creation – Customer Support, Theo Mink, will be representing Tealinc, Ltd. as attendees of this falls Northeast Association of Rail Shippers (NEARS) meeting. The event will be held September 21 – September 23 in Portland, Maine. *Sign up for the conference here.*

Contact Julie or Theo to set up a meeting.

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Read Julie Mink's Biography

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Read Theo Mink's Biography

Railroad & Policy Updates

The Surface Transportation Board announced on August 5th that it has issued its decision determining the railroad industry's cost of capital for 2015.

In Railroad Cost of Capital—2015, Docket No. EP 558 (Sub-No. 19), the Board found that the rail industry's after-tax cost of capital was 9.61%. For 2014, the cost of capital was 10.65%.

The cost-of-capital figure represents the Board's estimate of the average rate of return needed to persuade investors to provide capital to the freight rail industry.

Calculated annually, the cost-of-capital figure is an essential component of many of the agency's core regulatory responsibilities. The Board uses the cost-of-capital figure in evaluating the adequacy of an individual railroad's revenues each year. It also uses the figure when determining the reasonableness of a challenged rail rate, considering a proposal to abandon a rail line, or valuing a particular railroad operation.

You can read the full decision **HERE**.

Mechanical Brief with Steve Christian

In the late 60's, I worked for the Chicago, Burlington and Quincy Railroad while I was still going to High School. In the summers, one of our major tasks was getting the old open top hoppers ready for the sugar beet season. When I say old, I mean old! These cars were ex-eastern coal cars with thin side sheets that were built in the 1910's. They even had manual slack adjusters and friction bearing trucks. They were stored on branch line sidings for 6 or 7 months a year. They were used to haul sugar beets to the factories for processing during the balance of the year during the

would receive cars at shop that had been rejected by the shipper because parts were missing (hatch covers, outlet gate parts, etc.)

"Beet Campaign".

Our first task was to pull the box lid of every journal box to check the journal for roughness and rust, check for standing oil and make sure the lube pad, brass (brass bearing with a Babbitt lining) and wedge were undamaged and in place prior to moving the cars to the shop. Every year there would be multiple journal boxes that were jacked, had the wedge removed and the brass missing (stolen). The worst part of it was that, in the process of stealing the brass, they would scrape or gouge the surface of the journal. That damage would mean that we'd have to replace the wheelset before the car could move.

The theory was that the car owner could have the cost to replace the "borrowed" parts eventually paid by the railroad that took them.

In later times, we would receive cars at shop that had been rejected by the shipper because parts were missing (hatch covers, outlet gate parts, etc.). In some cases, there would be a defect card in the defect card holder that explained the parts were removed enroute. The theory was that the car owner could have the cost to replace the "borrowed" parts eventually paid by the railroad that took them. Unfortunately, that railroad was usually across the border from the US. My experience with them is that they seldom, if ever, paid.

Recently, we have a customer that had outlet gate parts "borrowed" across the border. The missing parts were not discovered until the delivering railroad caught them at their inspection point close to where they were to be loaded, which was hundreds of miles away from the scene of the crime. Now we have the difficult task of getting someone to take responsibility. As anyone who deals with this sort of thing knows, getting someone to take responsibility for AAR Field Manual Rule 95A conditions is very difficult. That is not deterring us from chasing this to conclusion however.

We are investigating remedial actions that could deter someone from robbing parts off the gates

In the meantime, we are investigating remedial actions that could deter someone from robbing parts off the gates. We are looking at installation of securements that require special sockets to apply and remove. We are also looking at applying cable seals to empty cars to deter theft as well. If anyone knows of any other measures that are effective, send your suggestions to **Steve@tealinc.com**.

I think the theft of parts will continue to be an issue. Having an international border involved just complicates the situation. Sorting out complicated problems is something we deal with all the time and as always, Tealinc stands ready to employ our many years of experience and varied talents in the railroad industry to work for you.

*Steve Christian is the Manager Value Creation-Railcar Performance Manager for Tealinc, Ltd. You may contact Steve directly in his Colorado office at (719) 358-9212 or via email at **steve@tealinc.com**.*

Railroad Traffic

AAR: total July carloads decline 8.8% led by coal at 17.5% and petroleum at 22%

The Association of American Railroads (AAR) on August 3rd reported weekly U.S. rail traffic, as well as volumes for July 2016.

Carload traffic in July totaled 1,025,367 carloads, down 8.8% or 99,530 carloads from July 2015. U.S. railroads also originated 1,002,401 containers and trailers in July 2016, down 6.9% or 74,482 units from the same month last year. For July 2016, combined U.S. carload and intermodal originations were 2,027,768, down 7.9% or 174,012 carloads and intermodal units from July 2015.

July carloads of grain, waste and nonferrous scrap, misc. carloads up; coal, petroleum and petroleum products and crushed stone, sand and gravel down.

In July 2016, four of the 20 carload commodity categories tracked by the AAR each month saw carload gains compared with July 2015. These included: grain, up 15.3% or 12,641 carloads; waste and nonferrous scrap, up 25.9% or 3,400 carloads; and miscellaneous carloads, up 12.9% or 2,880 carloads. Commodities that saw declines in July 2016 from July 2015 included: coal, down 17.5% or 70,479 carloads; petroleum and petroleum products, down 22% or 11,926 carloads; and crushed stone, gravel and sand, down 11.6% or 11,765 carloads.

Excluding coal, carloads were down 4% or 29,051 carloads in July 2016 from July 2015.

Total U.S. carload traffic for the first 30 weeks of 2016 was 7,320,583 carloads, down 11.9% or 986,109 carloads, while intermodal containers and trailers were 7,715,404 units, down 2.8% or 221,538 containers and trailers when compared to the same period in 2015. For the first seven months of 2016, total rail traffic volume in the United States was 15,035,987 carloads and intermodal units, down 7.4% or 1,207,647 carloads and intermodal units from the same point last year.

"Rail traffic continues to reflect the uncertainty rail customers face in a challenging economic environment”

"Rail traffic continues to reflect the uncertainty rail customers face in a challenging economic environment," said AAR Senior Vice President of Policy and Economics John T. Gray, who noted rail intermodal remained off from 2015's record traffic level while carloads showed a small improvement in coal and a bit of an improvement in grain. "For the present, railroads are focused on providing safe and efficient service to their customers, while watching to see if the increase in consumer spending in the second quarter will lead to additional Gross Domestic Product growth in the second half of the year."

Learn more at:
http://www.railwayage.com/index.php/freight/class-i/aar-total-july-carloads-decline-88-led-by-coal-at-175-and-petroleum-at-22.html?channel=50&utm_source=WhatCounts%2c+Publicaster+Edition&utm_medium=email&utm_campaign=RGN+8.4.16&utm_content=AAR%3a+total+July+carloads+decline+8.8%25+led+by+coal+at+17.5%25+and+petroleum+at+22%25+

Industrial Inside

Canada’s grain railcar fleet repairs jump

Ahead of an expected near-record crop year in Canada, the country’s transportation regulator reported a significant jump in the number of government-owned grain railcars needing repair, raising concerns about a bottleneck among farmers and grain companies.

In its 2015 annual report on the government’s so-called hopper-car fleet, used primarily to deliver grains such as wheat, canola, and barley to port terminals for export, Transport Canada said 5.5% of the fleet qualify as “bad orders,” or cars in need of repair.

Expected near-record crop raises concerns about a bottleneck among farmers and grain companies

The latest result, released [in August], is more than double the 2% rate the regulator found in surveys conducted between 2012 and 2014, according to the report.

“As these crops get bigger and there’s more product to haul, capacity is really the number one issue,” said Robin Speer, executive director of the Western Canadian Wheat Growers of Canada. “If more cars are taken out of service permanently or because of failures in the infrastructure, that’s a huge problem.”

The Canadian government owns about 8,400 hopper cars and provides them at no cost to Canada’s two major railroad companies, Canadian National Railway Co. and Canadian Pacific Railway Ltd. In exchange, the railroads maintain the hopper cars and ensure there is enough capacity to meet demand.

The higher-than-normal rate of railcar repairs comes as Canadian farmers are expected to produce 75 million metric tons (82.5 million tons) of grains and oilseeds in the 2016-17 crop year, plus an additional 8.8 million tons of grains carried over from the previous year, according to Canada’s main statistics agency.

“We need to replace that hopper-car fleet,” said Wade Sobkowich, executive director of the Western Grain Elevator Association, a trade group representing grain shippers. "Bad order cars represent lost capacity for grain companies. How big of an impact it will have this year remains to be seen,” he said.

A Transport Canada spokeswoman said plans to move this year’s crop efficiently have already started and that grain shipments will be closely monitored throughout the year.

The coming harvest is expected to come close to the 78 million tons of grain grown in the 2013-2014 crop year, a harvest year marred by transportation issues as railroads dealt with extreme winter conditions and increased volumes from other commodities like crude oil. The resulting bottleneck led to record prices for some grains, including oats. To help get the crop moving then, Canada enacted measures such as expanded interswitching rules and penalties on railroads if certain volumes weren’t met.

A Transport Canada spokeswoman said plans to move this year’s crop efficiently have already started and that grain shipments will be closely monitored throughout the year.

Both of Canada’s major railroads say they intend to safely and efficiently haul their share of this year’s crop. CN and CP have suffered from reduced railroad volumes over the past several quarters following the commodity-price swoon and are betting on this year’s grain crop to bolster their bottom lines.

CN, Canada’s biggest railroad, has enhanced its rail network capacity and plans to provide efficient hopper-car cycle times to handle this year’s crop, spokesman Mark Hallman said.

CP operates about 5,500 government-owned hopper cars that are near the end of their 50-year lifespan, according to spokesman Marty Cej. The railway is “prevented from investing” in newer hopper cars that can haul nearly one-quarter more grain and work with the railroad’s unit trains due to regulations limiting the total revenue CP is able to generate from grain shipments, he said.

“A market-based system would unlock private capital and remove a major hurdle related to hopper-car fleet renewal,” Mr. Cej said.

“A market-based system would unlock private capital and remove a major hurdle related to hopper-car fleet renewal”

Removing the revenue cap is one option currently being studied by the Canadian government following a series of recommendations submitted by trade and transportation experts in February.

Read the entire article at:
http://www.wsj.com/articles/canadas-grain-railcar-fleet-repairs-jump-1471634832

Financial Focus

Yellen: 'Case has strengthened' for increase in federal funds rate

Federal Reserve Chairwoman Janet L. Yellen on [August 26, 2016] signaled that the central bank is moving closer to raising its influential interest rate amid sustained improvement in the job market.

In a speech at an economics conference, she acknowledged that the recovery's momentum remains tepid. Still, the country has added an average of 190,000 jobs a month this summer and the unemployment rate has remained steady at about 5 percent.

"I believe the case for an increase in the federal funds rate has strengthened in recent months," Yellen told the audience at the annual symposium hosted by the Kansas City Fed.

However, Yellen emphasized that no decisions had been made and that any forecast is inherently uncertain. Over the past year, central-bank officials have watched warily as global financial markets have swung wildly over fears of a slowdown in China and Britain's decision to leave the European Union. The turbulence overseas, coupled with surprisingly weak readings of the recovery at home, have kept the Fed from raising rates this year despite initially anticipating as many as four increases.

The turbulence overseas, coupled with surprisingly weak readings of the recovery at home, have kept the Fed from raising rates this year despite initially anticipating as many as four increases.

The possibility of an upcoming rate hike appeared to spook Wall Street. The major U.S. stock indexes dipped upon the release of Yellen's prepared remarks. The equity markets initially regained ground but then sold off throughout the morning as comments from other top Fed officials reinforced Yellen's stance.

By the closing bell, the major indexes were split, with the Dow Jones industrial average and the Standard & Poor's 500-stock index finishing slightly lower and the Nasdaq moderately higher.

Investors increased their bets that the Fed will raise rates this year -- possibly as early as next month. But there is still widespread skepticism, with the odds of an increase in September still at just 30 percent, according to an analysis by the CME Group. Investors believe there is a 57 percent chance of a move by December.

Meanwhile, the Fed is wrestling with more-existential questions, including whether the slow growth that has dogged the recovery for the past seven years is here to stay. That would leave the economy more vulnerable to downturns and could limit the ability of policymakers to counteract them

Yellen's remarks are "wide open for interpretation," said Ryan Sweet, director of real-time economics at Moody's Analytics. "It is likely an effort to keep financial markets on their toes."

Meanwhile, the Fed is wrestling with more-existential questions, including whether the slow growth that has dogged the recovery for the past seven years is here to stay. That would leave the economy more vulnerable to downturns and could limit the ability of policymakers to counteract them. Yellen said the central bank's own range of projections for its benchmark interest rate is "quite wide." And she argued [August 2016] that the Fed is not out of ammunition should another recession hit. The central bank could begin pumping money into the economy again or promise to keep rates low -- two pillars of its response to the Great Recession.

"The use of such tools could result in even better outcomes for unemployment and inflation on average," Yellen said.

Yellen also said the Fed could consider buying assets beyond the government bonds and mortgage-backed securities it purchased to prop up the economy. And she said economists should be studying proposals for a wholesale shift in strategy, such as raising the Fed's inflation target or setting a goal for broader economic growth.

Read more at:
http://www.lowellsun.com/business/ci_30300049/yellen-case-has-strengthened-increase-federal-funds-rate#ixzz4Ij8x3k89

The Edge
… with Darell Luther

If a person keeps up on the volume of rail traffic you'll find headlines as reported by the Association of American Railroads (AAR) as follows.

- "Washington D.C. – August 24, 2016. For this week (ending August 20, 2016) total U.S. weekly rail traffic was 531,484 carloads and intermodal units, down 6.4 percent compared with the same week last year."
- "AAR Reports Decline in June Rail Traffic"
- "U. S. Rail Traffic Declines in May"
- "AAR Reports Decline in April Rail Traffic"

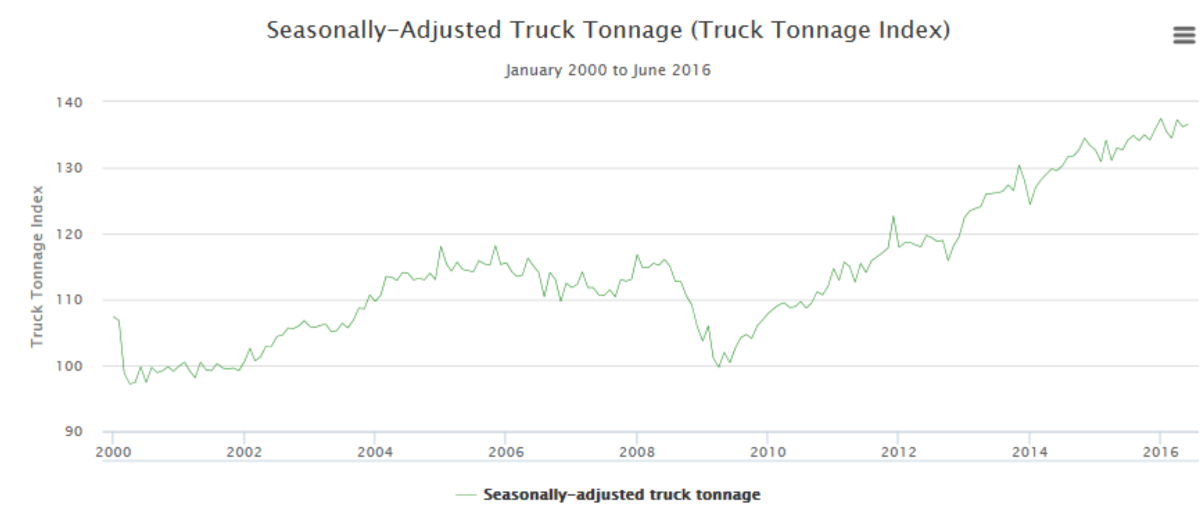
The AAR reports railcar loadings for fourteen commodity groups. Ten commodity groups posted decreases compared with the same week in 2015 including petroleum and petroleum products, down 24.2 percent to 10,933 carloads; coal, down 16.6 percent to 89,599 carloads; and forest products, down 14.3 percent to 9,869 carloads. The remaining four carload commodity groups posted an increase compared with the same week in 2015. They included grain, up 36.5 percent to 24,944 carloads; motor vehicles and parts, up 4.9 percent to 18,974 carloads; and miscellaneous carloads, up 4.8 percent to 10,558 carloads. It is believed that of the miscellaneous carload group a vast majority of the railcars are ultimately headed for storage.

Energy related commodities (coal, petroleum and petroleum products) continue to take a beating. These commodities represent a significant volume of railcar loadings.   Forest products being down is somewhat of an anomaly since housing starts are projected to be up some 15,000 units when comparing second quarter 2016 against second quarter 2015 (US Census Bureau). Recognizing that lumber and refined forest products are used for more than just housing, one has to question “is this a leading indicator that third quarter housing starts and other industries that use lumber anticipate a reduction in sales volume?”

Grain is the bright spot from a railroads perspective at this time. Old crop feed grains are moving in advance of an anticipated very good new crop production. Small grains also had a decent yield this year and are generating some positive rail carload volumes. Motor vehicles for the week and year have basically been positive with many consumers buying new cars and trucks and getting older ones repaired. Maybe the consumer doesn’t know we’re in somewhat of a recession?

On a global bulk trade basis the Baltic Dry Index (BDI) traded slightly higher in more recent times on the anticipation that Asian and some European countries will be importing bulk goods such as coal, ore and grains in preparation for the winter season. One can see from the chart below that over the past five years the BDI has had a volatile but ever decreasing value and recently in 2016 established new lows. Ocean freight companies are struggling with overcapacity and cape size vessels that don’t have the flexibility to haul a multitude of commodities resulting in lower freight rates. The uptick in more recent months is indicative of seasonal imports and exports but is nowhere near what one would expect in a recovery of capacity and rates.

Exploring the trucking mode of transportation we see from the chart below that the seasonally adjusted truck tonnage index shows positive long term gains in truck tonnages. The continual push by railroads to increase length of haul and increase returns has moved the effective mileage reach of the trucking industry from some 100 mile historical reach to closer to a 300 mile reach in some instances. The trucking industry though has its own set of challenges between cost (fuel intensive), regulation, drivers and low barriers to entry.



Source:

Seasonally-adjusted truck tonnage - U.S. Department of Transportation, Bureau of Transportation Statistics (BTS) calculation from American Trucking Association Monthly Truck Tonnage Report

The overall conclusion is that freight, particularly bulk freight is down and there are competing modes of transportation for that freight and competition within those modes that create a significant set of challenges and opportunities. If you need help figuring out how to best address those challenges and opportunities we'd be happy to help.

We look forward to earning your business!