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Study shows improvements in both dwell time and velocity year after year

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STB seeks public comments on proposed fuel surcharge practice changes

Railroad Updates

Service on Nation's Railroads Showing Marked Improvement

Service on the nation's railroads is showing marked improvement over year-earlier levels, according to a recent survey of shippers by Bear Stearns. "Our second-quarter survey results indicate that rail service levels improved on both a sequential and year-over-year basis," the financial services company said in its quarterly research report.
It said that the survey results generally agreed with its own analysis of Class I metrics, which showed improvements year over year in both dwell time and velocity.

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, according to the survey.
Bear Stearns added, "Unlike in past years when West Coast port congestion meaningfully slowed rail service during the peak demand season, we believe the railroads and the entire supply chain have done a better job of planning for the peak season."

"These improvements are especially impressive considering the fact that railroads are moving more freight than ever before in their history," said Association of American Railroads President and CEO Edward R. Hamberger. He noted that total volume is up 2.7 percent so far this year while intermodal -- the industry's most service-sensitive business segment -- is up 6.4 percent from last year when previous records were set.

"Railroads have spent billions of dollars over the past few years -- including a record $8.3 billion in capital improvements this year alone -- in order to increase capacity and improve service," Hamberger noted. "Railroads have also changed operating practices and entered into joint agreements that improve the flow of traffic across the rail network." He said that these actions "have left railroads in a good position to handle the upcoming peak shipping season efficiently and safely."

Read more at:
http://www.aar.org/Index.asp?NCID=3822

STB Seeks Public Comments on Proposed Fuel Surcharge Changes

The Surface Transportation Board has come up with proposals to change railroads' fuel surcharge practices. Now, board members want to know what the public thinks about the measures. The STB is accepting public comments on the proposals — which the board issued after conducting a public hearing on fuel surcharges May 11, and reviewing testimony submitted from railroads and shippers— until Sept. 25.

Contact the STB with your thoughts and suggestions at: www.stb.dot.gov

The STB proposes that:

1. Railroads develop a fuel surcharge computation more closely linked to increased diesel costs attributable to a movement
2. Railroads be prohibited from "double dipping" by assessing a fuel surcharge and a rate escalator based on an index, such as the STB's Railroad Cost Adjustment Factor, without first subtracting any fuel-cost component from the index
3. Railroads be required to use the Energy Information Administration's "U.S. No. 2 Diesel Retail Sales by All Sellers (Cents per Gallon)" as a single, uniform index to measure fuel-cost increases and
4. Each Class I submit a monthly report to the board showing total fuel costs, diesel consumption and fuel surcharge revenue, and how much of the revenue was shared with connecting short lines.

Read the entire article:
http://www.progressiverailroading.com/freightnews/article.asp?id=9273

AAR Updates

Committee's Interpretation of Responsibility for Flood Damage

Committee's main areas of concern: Responsibility for cars in one's ownership, as well as cars in other's ownership, when loss or damage occurs

Issued on November 10, 2005, Circular C-10200 provided the Arbitration and Rules Committee's interpretation of responsibility for flood damage. In addition to providing the interpretation, it also advised that additional actions would be considered on the subject. Specifically, C-10200 stated: "The Committee wishes to also advise industry stake holders, i.e., subscribers, that they are considering proposals to further clarify the rules to better define conditions where subscribers will be accountable not only for cars of their ownership when on their owned or leased property, but also cars of other ownerships if requested for loading. Another expected by-product of this review would be a clarification of other existing rules in accordance with any approved changes to subscriber accountability."

Subscriber in possession of car will assume responsibility for all cars in its control for loss or damage

In July, 2006, the Committee further defined conditions wherein the delivering line will be accountable. Statements in the Circular include:

1. Responsibility for any damage or loss to a car on non-subscriber track, shall be assumed by the subscriber delivering the car upon such track.
2. The subscriber in possession will assume responsibility for all cars in its control for loss or damage and the delivering line will be responsible for car repair billing and disposition.

The Committee, comprised of both railroad and private car owners, were in agreement that the change as a proposed new item 99.2 was reasonable based on their review of several responsibility issues arising from the flood damage caused by last years hurricanes. Specifically, the Committee focused attention on what was felt to be one of the main areas of concern, responsibility for cars in one's ownership as well as cars in other's ownership when loss or damage occurs.

Visit the AAR at:**http://www.aar.org** or request a copy of the Circular at **webmail@tealinc.com**

U.S. Rail Traffic Up in July

July loadings of coal, metals and grains up; loadings of motor vehicles, lumber, chemicals and metallic ores down.

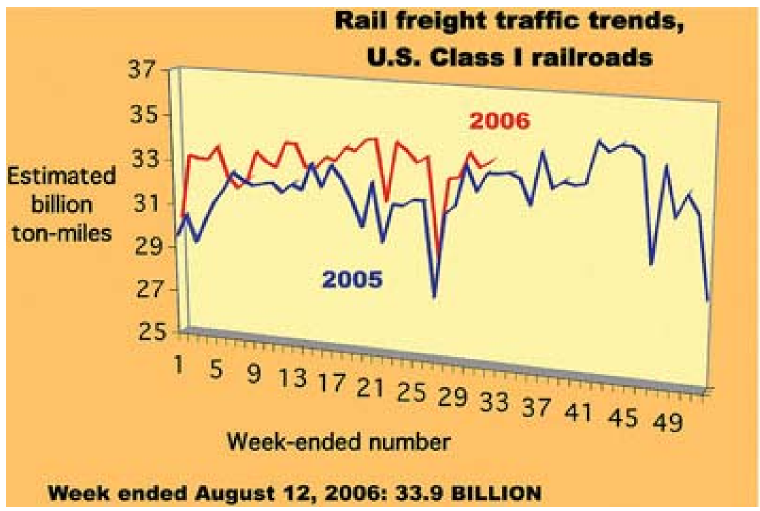
Yearly carloadings for coal, metal products, crushed stone, sand and gravel up while nonmetallic metals, chemicals and metallic ore loadings down.

Railroad Traffic

U.S. railroads capped off a strong July with a record-breaking week for intermodal traffic, the Association of American Railroads (AAR) reported.

Intermodal volume for the week ended July 29 reached 250,966 trailers or containers, breaking a weekly record that was set during the week ended October 22, 2005, when they moved 250,1152.

For the entire month of July, intermodal volume on U.S. railroads totaled 938,160 trailers or containers, an increase of 6.7 percent over July 2005. Also up for the month was carload volume, which totaled 1,291,956 cars, up 2.0 percent from July 2005.



http://www.railwayage.com/A/freighttrends.html

Commodities showing carload gains in July 2006 included coal (up 4.5 percent); metals and products (up 16.9 percent); and grain (up 7.6 percent). Commodities showing carload declines in July 2006 included motor vehicles and equipment (down 6.8 percent); lumber and wood products (down 11.0 percent); chemicals (down 1.7 percent); and metallic ores (down 5.6 percent).

For the first seven months of 2006, total U.S. rail carloads were up 152,585 carloads (1.5 percent) to 10,082,047 carloads. Year-over-year increases in coal (up 168,361 carloads, or 4.2 percent); metal products (up 34,936 carloads, or 8.8 percent); and crushed stone, sand, and gravel (up 33,078 carloads, or 5.0 percent) — among other categories — offset declines in nonmetallic minerals (down 45,778 carloads, or 20.4 percent); chemicals (down 21,772 carloads, or 2.4 percent); and metallic ores (down 20,576 carloads, or 9.6 percent), among others.

"Coal carloadings on U.S. railroads in July 2006 were 4.5 percent above the July 2005 level, and are up 4.2 percent from January through July 2006," noted AAR Vice President Craig F. Rockey. "Railroads are delivering unprecedented volumes of coal, helping to ensure continued availability of cost-effective coal-fired electricity.

Total volume for the first 30 weeks of 2006 was estimated at 996.9 billion ton-miles, up 2.8 percent from the same period a year ago

Given the weather that most of the country is currently suffering through, we are looking for coal movements to continue their torrid pace."

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

Industrial Inside

Lumber prices have been falling for most of 2006 with rising mortgage rates and slower housing demand. In the big picture, the forest products industry has not been overly profitable and many traditional lumber companies have been selling their timber land and moving toward consumer products. Currently, lumber supplies are said to be plentiful while the market hopes for a change in demand. In 2005, housing starts were up 5.6% from a year ago. In the first seven months of 2006, housing starts were down 5.1% from a year ago. In the first seven months of 2006, new home sales were down 14% from a year ago after gaining 6.6% in 2005.

Lumber supplies are said to be plentiful while the market hopes for a change in demand

Reacting to what they perceive as increasing consumer uncertainty regarding the market for new single-family homes, builders tempered their views on current and expected sales activity in the Wells Fargo/National Association of Home Builders Housing Market Index (HMI) for August. The HMI declined seven points to 32, its lowest level since February of 1991. This was the seventh consecutive month in which builder confidence, as measured by the index, has fallen.

"It's important to recognize that home sales and housing production are subsiding from record levels a year ago, and those levels clearly were unsustainable"

"Two big factors are coloring builders' perceptions of the market right now – rising sales cancellations and substantial growth in inventories of both new and existing homes," said NAHB Chief Economist David Seiders.

"It's important to recognize that home sales and housing production are subsiding from record levels a year ago, and those levels clearly were unsustainable," noted Seiders. "We expect the erosion in market activity to continue through most of this year before stabilizing in 2007." Seiders also noted that, historically, builder sentiment tends to contract by a greater margin than actual sales and production activity.

"We expect the erosion in market activity to continue through most of this year before stabilizing in 2007."

Softwood lumber prices are forecast to continue exhibiting a weakening trend through the second half of 2006 and into 2007, as the market adjusts to a cooling in housing construction in North America. On the softwood lumber dispute, the US Court of International Trade ruled late in July that the basis used by the US Department of Commerce to collect duties on Canadian lumber was void, and that duties collected to date could not be distributed to US companies under the Byrd Amendment. These decisions bolstered the resolve of critics of the tentative deal to reject it or renegotiate it. Industry support for the deal is tenuous at this stage.

"It is the first downturn in the 40 years since we entered the business that was not precipitated by high interest rates, a weak economy, job losses or other macroeconomic factors," Robert Toll, chairman and chief executive (of Toll Brothers), said in a statement. "Instead, it seems to be the result of an oversupply of inventory and a decline in confidence."

"…it seems to be the result of an oversupply of inventory and a decline in confidence."

"On the bright side for consumers, the economy continues to be in fundamentally good shape, mortgage rates remain near historic lows, house price gains are decelerating, and builders are offering substantial buyer incentives to keep their inventories down. Such favorable market conditions certainly are reason for optimism among those in the market to buy new homes," NAHB Chief Economist David Seiders said.

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http://www.dailyfutures.com/livestock/

Financial Focus

After 17 consecutive increases, the Feds halt interest rate hikes

The Federal Reserve decided not to raise interest rates in August halting a more than two-year string of interest-rate rises at that meeting, holding its benchmark short-term rate steady at 5.25 percent while assessing whether a slowing economy would keep inflation in check.

Federal Reserve policy-makers believed that, while worried about inflation, keeping interest rates steady would enable them to gather more data before deciding on any future rate rises, minutes of their August meeting showed. "Keeping policy unchanged at this meeting would allow the committee to accumulate more information before judging whether additional firming would be necessary to foster the attainment of price stability over time," minutes of the central bank's policy-setting Federal Open Market Committee's Aug. 8 meeting said. "The full effect of previous increases in interest rates on activity and prices probably had not yet been felt, and a pause was viewed as appropriate to limit the risks of tightening too much," the minutes said.

Policy-makers left open the possibility of more rate increases if price pressures should persist

Richmond Fed Bank President Jeffrey Lacker dissented, preferring a quarter-percentage-point increase. Lacker believed more rises would be necessary to bring inflation down more quickly than with a pause. "Although real growth was likely to be somewhat lower in coming quarters, in his view it was unlikely to moderate enough to bring core inflation down," the Fed said.

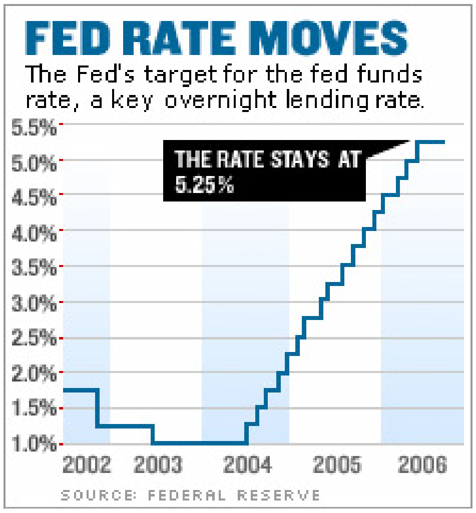
Fed officials were all worried about higher inflation readings, the minutes said. But they concluded that inflation expectations were contained and core inflation was likely to decline gradually over the next several quarters.

Even so, policy-makers left open the possibility of more rate increases if price pressures should persist. "In view of the elevated readings on costs and prices, many members thought that the decision to keep policy unchanged at this meeting was a close call and noted that

Next Fed Meeting September 20

additional firming could well be needed."

We'll have to wait until the Fed's meeting on September 20 to understand their next course of action.



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

The Edge

Fall is quickly sneaking up on the industry and we're about to wrap up the planning for another year and delve into the push to obtain the numbers, volumes and economics we projected at the beginning of the year. All that's left is that final push to shore up those areas that aren't quite meeting expectations and to keep managing those that are so they don't slip.

The railroad industry also brings with it a round of industry meetings and events that help one understand and perhaps shape the rail transportation platform in which we will be dealing for the next year. Worth noting is the 2006 North American Railroads Customer Forum held on September 13, 2006 in St. Louis (**www.aar.org**) . This is one of the few forums where the Railroads invite the shipping community to partake in a forum versus the other way around. Given the pace of freight rate increases, service challenges and overall significant industry growth it would be a good forum to help you understand and better plan for your transportation requirements going forward. Be sure to take your questions and don't be shy in asking them.

While you're planning **don't forget that winter happens!** In many companies shipments are scheduled around mathematical equations instead of reality. If you're shipping any kind of product in the northern tier of the U.S or Canada and you need to make a year end push for November or December to meet calendar year numbers we suggest you bring as many of your shipments forward into nicer fall months if possible.

If you need some help with rail planning inputs let us know and we'd be glad to share them with you.

We look forward to earning your business!