Tealinc

Touchbase

September 2008

In This Issue

Visit us at:
www.tealinc.com

Railroad Updates

Norfolk Southern announces new billing process for empty car movements

In an email sent by the director of car management at the Norfolk Southern Railroad in late August, the railroad declared that effective September 1, 2008, Norfolk Southern will begin issuing freight bills for private equipment regarding Tariff 6007-M series violations of empty car movements. The NS went on to explain that they will bill the Lessee's mark in the Lessee field in UMLER of any privately marked railcar subject to empty revenue charges and that if the lessee field is blank, the revenue bill will be the responsibility of the equipment owner. It was requested that if the customer would prefer that the Lessee receive empty revenue bills that an update must be made within the UMLER system with the correct Lessee mark.

Many customers have expressed confusion as to what this notice means to them as a car owner, a car lessor and as a car lessee. Simply put, the Norfolk Southern is advising that within its database of car owners (referenced by its use with Railinc's UMLER system) the car mark owner denoted in the UMLER "Lessee" field will be charged for all empty car movements. If you need help further understanding this notice or if you need assistance with UMLER, please contact us directly so that we can make this process easier for you.

Send us an email at:
webmail@tealinc.com

BNSF Coal Fuel Surcharge for September 2008 Now Effective

BNSF implements new fuel surcharge rate for September 2008

Based on the national average price of Highway Diesel Fuel of $4.703 per gallon reported in July 2008, the BNSF advised that there will be a 43.5 percent BNSF Coal Fuel Surcharge for the month of September, as provided for in Item 3380 of BNSF Rules Book, 6100-A and that the mileage based Fuel Surcharge on Unit Coal will be $0.58 per mile for the month of September, as provided for in item 3381 of BNSF Rules Book, BNSF-6100-A.

The BNSF also advised that all other carload mileage based Fuel Surcharge will be $0.87 per mile for the month of September as provided in Item 3375, Section B of BNSF Rules Book, BNSF-6100-A.

Learn more at:
http://newdomino.bnsf.com/website/updates.nsf/updates-pricing-coal/AE1CD7A557BA045086257495005A2806?Open

FRA, Unions Unveil 'Risk Reduction' Safety Program

FRA, unions unveil 'risk reduction' safety program

On August 12, the Federal Railroad Administration (FRA) and other labor unions launched the Risk Reduction Program (RRP), a "risk-based approach" to identifying and correcting safety issues.

RRP encourages voluntary participation by railroads and workers on projects targeting specific risk categories

The initiative, which will supplement current federal regulations, inspection requirements, and other compliance and enforcement functions, calls for developing "innovative" methods, processes and technologies to address train accident and employee injury risk factors, the FRA said.

RRP encourages voluntary participation by railroads and workers on projects targeting specific risk categories, such as confidential close-call reporting systems, peer-to-peer accident prevention strategies and fatigue risk management programs. In addition, the program encourages railroads to adopt technology — such as trackside train-monitoring equipment — to identify potential safety problems.

The FRA, which recently sponsored several risk-reduction pilot projects, is establishing RRP as a formal agency safety program, FRA Administrator Joseph Boardman said at a Rail Safety Summit held yesterday in Washington, D.C. In addition to rail management and labor input, the FRA plans to obtain public comments on the program in fall.

"Fixing something after it breaks or writing rule-violation notices is increasingly unlikely to result in significant additional gains in rail safety," said Boardman in a prepared statement.

During the safety summit, the FRA also presented awards to Union Pacific Railroad, the Brotherhood of Locomotive Engineers and Trainmen and United Transportation Union for partnering with the FRA Office of Railroad Development to implement two risk-reduction demonstration projects.

A Changing At-Risk Behavior (CAB) project resulted in an 80 percent reduction of "targeted behavior" in less than two years, the FRA said. And the ongoing Safety Through Employees Exercising Leadership (STEEL) project so far has eliminated more than 75 "safety barriers," according to the agency.

Read more at:
http://www.progressiverailroading.com/prdailynews/news.asp?id=17614

AAR Updates

U.S. grain exports highlight need for infrastructure boost

In an Associated Press story August 25, 2008, writers Christopher Leonard and Catherine Tsai focus on how the countries bountiful harvests brings focus to the freight rail industry's quest to increase rail capacity.

The article notes that a boom in wheat and corn exports are contributing factors in the need to expand the country's freight capacity, including rail, river and ocean-going barge capacity.

"The surge in exports is revealing inefficiencies in the country's railways, highways and rivers that carry the grain that helps feed the world," the reporters wrote. "A surprisingly large harvest this fall is expected to test the system even further. The U.S. Department of

Agriculture predicts farmers will produce the second largest corn crop and fourth largest soybean crop in history," they wrote. "In the meantime, exports are forecast to increase, with corn shipments expected to grow every year over the next decade from 54 million metric tons to 77 million metric tons, according to the Food and Agricultural Policy Research Institute."

The AAR and farm industry groups are backing legislation that would offer tax credits for investments in freight rail expansion

"Rail delays cost amounted to about 1 percent of the combined $13.8 billion value of corn and soybean exports in 2006," the article said. "Fixing the bottlenecks will take billions of dollars in investment over several years."

The AAR estimates it will cost about $148 billion to expand rail lines over the next 30 years to handle increased demand.

"The AAR and farm industry groups are backing legislation that would offer tax credits for investments in freight rail expansion," the article states.

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

Railroad Traffic

U.S. rail car loadings up in July 2008

U.S. railroads originated 1,606,877 carloads of freight in July 2008, up 16,825 carloads (1.1 percent) from July 2007. U.S. railroads also originated 1,125,795 intermodal trailers and containers in July 2008, a decrease of 2.2 percent from July 2007, the Association of American Railroads (AAR) reported on August 7, 2008.

Coal, grain and chemical car loadings up; motor vehicles and equipment, coke and lumber and wood product car loadings down

Commodities showing carload gains in July 2008 included coal up 4.3 percent; grain up 7.2 percent; and chemicals up 4.1 percent while commodities showing carload declines in July 2008 included motor vehicles and equipment down 22.2 percent; coke down 29.7 percent; and lumber and wood products down 17.1 percent.

Seven of the 19 major commodity categories tracked by the AAR saw U.S. carload increases in July 2008 compared to July 2007.

For the first seven months of 2008, total U.S. rail carloads were up 36,575 carloads (0.4 percent) to 10,058,613 carloads. Year-over-year traffic was up in coal (up 3.3 percent); grain (up 14.5 percent); and chemicals (up 3.3 percent), among others. Year-over-year traffic was down in motor vehicles and equipment (down 15.5 percent); coke (down 31.9 percent); and crushed stone, sand, and gravel (down 6.0 percent), among others.

"All things considered — including a continued weak economy and residual effects from the devastating

"All things considered — including a continued weak economy and residual effects from the devastating floods in the Midwest in June — the increase in U.S. rail traffic in July was gratifying," said AAR Senior Vice President John T. Gray. "With fuel prices staying high, many shippers are finding that the fuel efficiency of rail is just one more

floods in the Midwest in June — the increase in U.S. rail traffic in July was gratifying," said AAR Senior Vice President John T. Gray. "With fuel prices staying high, many shippers are finding that the fuel efficiency of rail is just one more reason to turn to railroads to meet their transportation needs."

reason to turn to railroads to meet their transportation needs."

U.S. intermodal traffic, which consists of trailers and containers on flat cars and is not included in carload figures, was down 217,003 trailers and containers (3.1 percent) for the first seven months of 2008 to 6,886,812 units.

Total volume for the first 31 weeks of 2008 was estimated at 1.04 trillion ton-miles, up 1.6 percent from the same period last year.

Canadian rail carload traffic was down 4.4 percent in July 2008. For the year to date, total Canadian carloads were down 4.1 percent. In July, carload gains for metallic ores (up 7.7 percent) and crushed stone and gravel (up 33.5 percent) was not enough to offset declines in grain (down 20.2 percent), lumber and wood products (down 27.3 percent), and coal (down 10.8 percent), among others.

Canadian intermodal traffic was up 4.2 percent in July 2008 compared with July 2007 to 248,147 units, and up 4.3 percent for the first seven months of 2008 to 1,474,842 units.

Combined cumulative rail volume for the first 31 weeks of 2008 on 12 reporting U.S. and Canadian railroads totaled 12,358,991 carloads, down 0.5 percent (62,792 carloads) from last year, and 8,361,654 containers and trailers, down 1.8 percent (156,458 units) from the first 31 weeks of 2007.

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

Industrial Inside

Declines predicted in both 2008 and 2009 cement consumption

Although the United States is not technically in a recession, the Portland Cement Association (PCA) reports that an increasing unemployment rate, higher inflation and low consumer sentiment will combine to have lingering negative effects on the U.S. economy and on cement consumption and the construction industry.

A moderate decrease in the 2008 and 2009 cement consumption forecast by PCA Chief Economist Edward Sullivan further underscores the lingering negative effects the U.S. economy is having on the construction industry. The latest PCA forecast predicts a 12 percent decline in cement consumption in 2008, followed by another 6.0 percent drop in 2009. These numbers represent 1.0 percent and 0.5 percent drops from Sullivan's previous forecast, published in the late spring. They also come on the heals of the grim statistic that over a four-year period, cement consumption will see the worst decline, on a percentage basis, since the Great Depression.

Over a four year period, cement consumption predicted to see the worst decline since the Great Depression

"Real construction activity is expected to decline 9.0 percent in 2008, and another 7.0 percent in 2009," Sullivan says. "The combination of high home inventories, weak economy-wide demand conditions, and poor state budget conditions will hit all sectors of construction--

“The combination of high home inventories, weak economy-wide demand conditions, and poor state budget conditions will hit all sectors of construction--residential, non-residential and public.”

residential, non-residential and public.”

Although PCA had expected a downturn in non-residential construction to occur in the third quarter of 2008, this sector is working on the backlog of projects already under contract and seems consistent until closer to the end of the year. However, the trend in contract awards for the future is alarming. “In the first five months of 2008, there was a 29 percent decline in non-residential contract awards. If these trends hold true, a similar intensity will materialize in 2009,” Sullivan explains.

The majority of cement consumption occurs in the residential and public sectors. High inventories will suppress housing starts and residential cement consumption until 2010. State budget shortfalls attributed to increased spending in entitlement programs such as Medicare and decreased revenue from job losses will result in a 4.8 percent drop in cement consumption by the public sector in 2008, followed by two additional years of decline. PCA predicts a recovery to begin in 2010, but more modest than previously forecasted. Total cement consumption in 2010 is expected to increase 2.7 percent from 2009 levels.

Read more at:
http://www.pitandquarry.com/pitandquarry/News+Watch/PCA-Economic-weakness-to-last-into-2009/ArticleStandard/Article/detail/542846?contextCategoryId=42776

Financial Focus

Minutes from the Federal Reserve’s latest meeting send unclear picture as the next step for interest rates

The Federal Reserve expressed concern about both greater inflation risks and a slowdown in the economy that could extend into next year, according to minutes of its most recent August 5th meeting.

The central bank said it is most likely that its next move will be to raise interest rates, indicated that the timing of such a move is uncertain, however, given the conflicting pressures on the Fed to both spur economic growth and keep prices in check but since that meeting, expectations of a rate hike in the next few months have dipped significantly as oil prices have fallen and the dollar has rallied. In addition, the Fed also indicated in the minutes that its staff lowered its forecast for economic growth in the second half of this year and into 2009. The Fed is now looking for a pickup in the economy in the second half of next year.

Minutes indicated that a number of participants voiced inflation concerns

The central bank's policy-makers left the Fed's key overnight lending rate at 2% following its August 5 meeting, the second straight meeting at which the rate was left unchanged. Prior to that, the Fed cut rates seven times between September 2007 and April in an effort to address weakness in the economy and problems in financial markets.

One member of the Federal Open Market Committee, Dallas Fed President Richard Fisher, dissented at both those meetings, arguing that rates needed to be raised in an effort to combat inflation pressure and, while Fisher has been the sole vote for hikes the past two

Some speculate that Fed Chairman Ben Bernanke expects price pressures to ease later this year as the economy slows but also acknowledges that storms in financial markets have not yet ended

meetings, the minutes said that "a number of participants" voiced concern about inflation pressures.

The minutes also suggested that some Fed members think it must move to raise rates sooner than now assumed by markets if it is to head off a return of inflation but most members do not believe current rates are too low "given that many households and businesses were facing elevated borrowing costs and reduced credit availability."

Fed Chairman Ben Bernanke acknowledged the commodity price decline in a speech in mid August and said he expects price pressures to ease later this year as the economy slows but he also warned that storms in financial markets have not yet ended. That was taken as the clearest signal yet that the Fed will keep its federal funds rate on hold at its September 16 meeting and probably for the remainder of the year.

Stuart Hoffman, chief economist for PNC Financial Services Group, said that given Bernanke's recent comments, the minutes had few surprises. He said while it's clear there is a vocal minority of policymakers who would move to raise rates to combat inflation, the majority isn't prepared to do so just yet.

"If anything I read this as the vast majority preaching patience as far as inflation," he said. "The Fed does seem to be signaling their next move is up. But to me the odds of even a December hike are still pretty slim."

Learn more at:
http://money.cnn.com/2008/08/26/news/economy/fed_minutes/index.htm?postversion=2008082615

The Edge

The railroad industry has been pummeled by external weather forces this year. The late summer shipping season had to deal with a multitude of hurricanes across the southern United States and flooding on major river corridors taking out track and bridges. Rail infrastructure has been strained to keep up with demand for transportation services. Despite the fact that a lot of physical infrastructure has been destroyed a remarkable effort has been made by major rail carriers to work to a quick and efficient recovery utilizing internal and shared resources across rail carriers. Railroads don't get much credit for being resourceful. In this case they should it truly was an exemplary job by many folks in the field and in the office.

Economic times such as we're experiencing point to differing opinions. We find some reports that say we're in a recession comparable to the "dirty thirties" and others projecting significant growth in the months and years ahead. In our experience, we advise that you as a company or business leader of a company need to plan to succeed. Here at Tealinc, we are consulting to a significant number of companies that intend to grow their business based on a rail network. Most of these companies have no experience with rail except to understand that for large quantities of bulk commodities to move across vast distance efficiently and cost effectively rail is the only alternative (those not on water anyway). Development of large scale transportation projects is a specialty of ours and if you'd interested in a free consultation on your project feel free to give us a call.

Tealinc' business this fall has increased dramatically. I'm not sure if it's a reflection of what I said earlier (businesses are planning to succeed) or simply a matter of conscious effort by many companies to move forward on plans because there is no other alternative despite a somewhat gloomy outlook on the economy. In either case, we encourage a thorough review of your rail plans for the remainder of the year and for 2009. Keep in mind in many northern states "winter happens". The rail system will not only be slowed down from impacts of nature (snow, ice and freezing weather) but will also be impacted by two of the three most significant rail holidays which are Thanksgiving and Christmas. Look at any rail ton mile chart and you'll see outside of July 4th these two holidays have the slowest amount of tonnage moved. Plan for it.

It appears (again from the outside looking in) that western coal loadings are catching up with demand. That bodes well for other commodity groups needing shared resources (primarily manpower and locomotives) to transport their goods. Agriculture commodities especially corn, soybeans and wheat will soon need a ride on a freight train to get to market. With fall harvest of wheat behind us and corn and soybeans looming, we anticipate shared rail resources to be strained. It's really not a matter of rail cars in as much as it is a matter of quickly loading, transporting, unloading and getting cars in position for the next load. That takes people and power. This year there may actually be some of both available for seasonal fall crops.

We wish you good planning this fall season. Call or email if we can be of assistance.

We look forward to earning your business!