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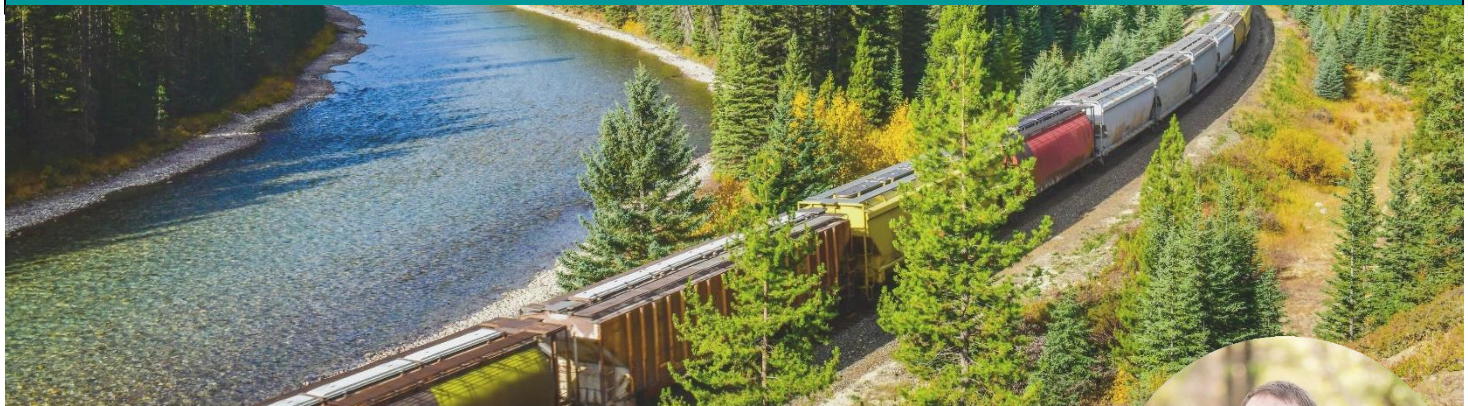
TRAIN OF THOUGHT

Newsletter for the Rail Industry



TRAIN OF THOUGHT

Spring 2023

Featured Articles

Even More…

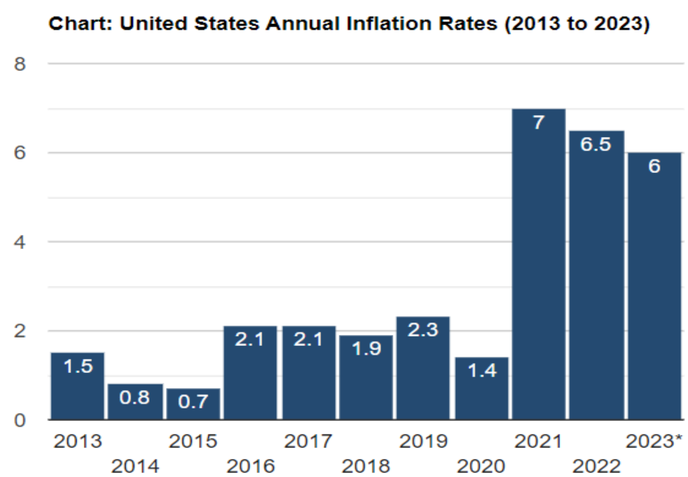
Railing On…

Darell Luther, Founder & CEO

Continuing into 2023 – Congratulations you made it to Q2!

The recognition that our economy is on the bubble of either slowly getting better or quickly falling into a (acknowledged) recession has become more evident as the year goes on.

The Federal Reserve punched through with their second to last rate increase (at least announced anyway) which was tempered somewhat by only being ½ of a point instead of ¾ of a point. Still claiming room for additional rises if inflation isn't tamed. It's easy to see the Fed's concerns when you look at inflation history – it's more than tripled between 2020 and 2021 and held relatively steady since that time.



We're not economists but we do see the impact of Fed increases in borrowing rates and rates of return for those in debt laden industries. If you're having a tough time navigating this current cycle and need to rethink your asset ownership position, give us a call.

Turmoil within the rail industry also continues to run rampant. The Norfolk Southern Railroad (NS) train wreck at East Palestine, Ohio where 38 railcars derailed and spilled contaminated liquids was devastating to the local community and to the rail transportation community as a whole. The really sad part, beyond the obvious damage caused to the local citizens of Palestine OH, instead of becoming a teaching and learning moment its' become a political fairy tale where the goblins are chasing the big bad railroad without any thought to what they are doing. Derailments are never a good thing, but politicians need to realize they aren't done on purpose. In this second quarter 2023 newsletter we hope to depart upon you some intellect and interesting news. If you'd like to comment or continue the discussion, send me an email at darell@tealinc.com.

Railcar Supply & Demand

Kristen Proper, Director – Railcar Leasing & Sales

Choices for railcar supply continue to be slim to none and in a lot of instances slim just left. There is a quandary in the railcar world right now. Higher interest rates (see Darell's article above), high scrap prices that consumed a lot of older yet very usable railcars, a lack of surplus building in the 1980's to the 1990's, increased demand for rail transportation services to move product and a slow-down in rail service has created a perfect storm of very low railcar supply across all railcar types.

The tenacity of our people, reach of our marketing program and simply holding some railcars close to the vest has resulted in a sparce number of railcars available for lease opportunities. We'd love to visit with you about your need to lease, buy, sell, or trade railcars. We are also interested in sale – leasebacks and outright purchases of railcars. Railcar types that we have available now include open top hoppers for coal, coke, taconite, ballast, rock, aggregate, etc. We've also got a variety of covered hoppers available to haul plastic pellets, sand, cement, minerals, etc. Whatever your needs, give me a call and we can discuss your railcar supply and railcar demand needs.

Explore Railcar Supply & Demand with Kristen Proper: (708) 854-6307 | kristen@tealinc.com

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WHAT RAIL SUPPORT ARE YOU LOOKING FOR?

Click Any Box Below to Learn More…

Buy, Sell, Lease or Trade Railcars

Rail Fleet Management Services

Rail Strategy & Business Development

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Rail Fleet Management

Shannon Rodgers, Director – Railcar Services

My job is to be the conduit between our customers and the railroad world. It's an interesting, challenging, and action-packed role I get to play! I get to talk with railroads, shippers, receivers, railcar repair facilities, yard masters, train masters, railroad division superintendents, mechanical inspectors, the Association of American Railroads (AAR), Railinc and many other people who are concerned with getting our customers product shipped from point A to point B in a timely and safe manner. I'm a continuous customer advocate and those who I work with realize that fact quickly.

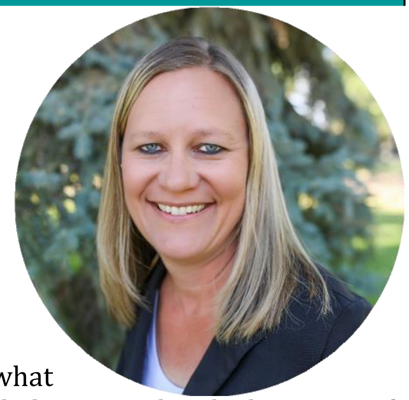
The rail transportation system in North America is a bit confusing. To support our rail fleet customers, I trace railcars daily to see if they're on schedule, manage bad orders and DDCT events, and focus on optimizing routes for both the best delivery times as well as the most cost-effective route. I also receive, review, audit, dispute, approve, and initiate payment of repair and maintenance invoices. Repairs required and completed by the railroad are governed by AAR rules and regulations (AAR Field and AAR Office Manual). These are the rules we all live by in this railroad world and I'll admit I don't know them by heart but I do have a well-worn set of manuals in my office! With the increase in AAR labor rates for railcar repairs and costs in general rising with inflation, I am sensitive to ensuring that railcars are preventatively maintained and kept in service as long as possible.

Another fun and enjoyable part of my job is ensuring that our team keeps us our internal knowledge of different railcar types; how they are loaded, unloaded, and utilized; and what commodities they carry so we provide exceptional direction for our customers. We're finding some of our industry contacts, customers, and shipping community is also interested in this education so we've added a "Train Tuesday" feature to LinkedIn and a Railcar Education section to our blogs. You can find them on our website at https://www.tealinc.com/tealinc-rail-industry-blog/. My favorite reads are 4000 Cube Open Top Hoppers and Mill Gondola Railcars. Which one do you prefer?

Focus on Rail Fleet Management with Shannon Rodgers: (814) 631-9277 | shannon@tealinc.com

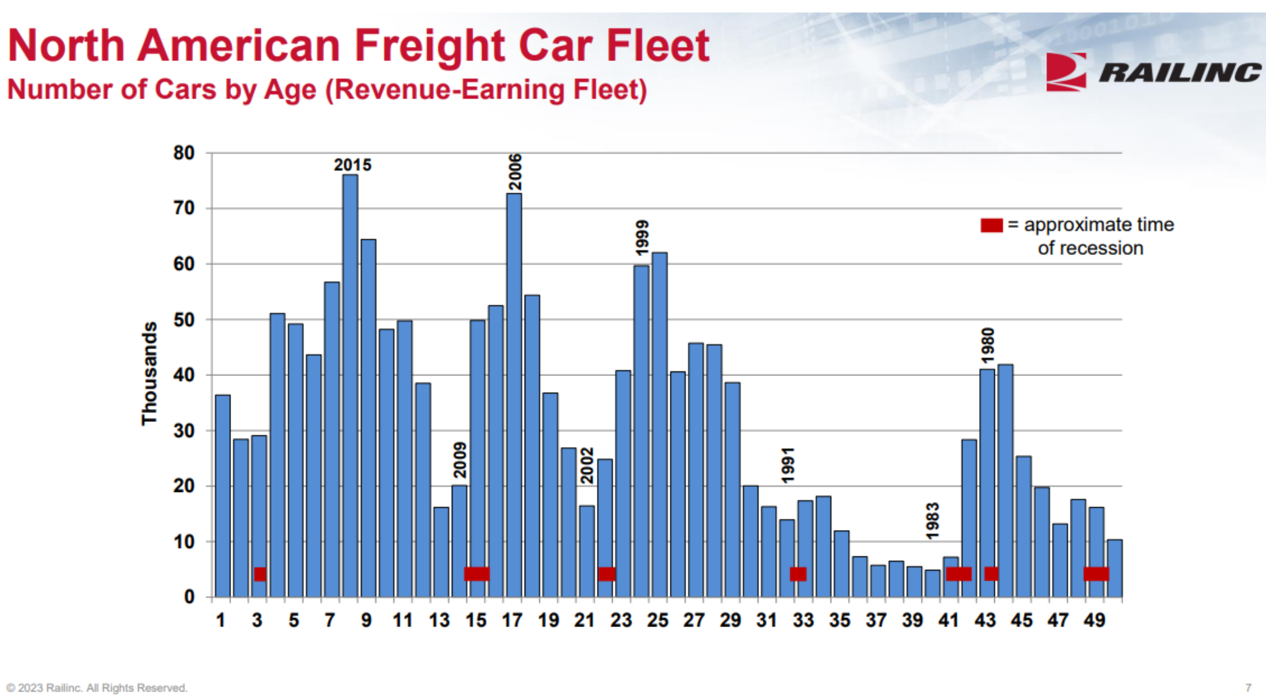
Railcars & Finance

Yvonne Lufborough, Director – Finance & Administration



In my role as Director of Finance, I don't always get out to see customers and rail industry professionals but I've certainly done my fair share of engaging with customers online, over the phone, and learning about railcars through my team here at Tealinc. As a newbie to rail, Tealinc has done a great job helping me learn about the industry and I enjoy learning from the experts. I've even passed every railcar test that Shannon Rodgers (see article above!) has given to our team and am confident I can tell you most anything you want to know about what railcars carry what commodities. I am also pretty confident I can tell you how a railcar is loaded, unloaded, operated and what types of pain points customers have with each railcar. I'm proud of the depth of rail knowledge I have and the teamwork I have put in to develop my knowledge base! To tie finance and rail together, for the past two years, Julie and I have been attending the Rail Equipment Finance (REF) conference in Palm Springs, CA together. What an amazing venue and the networking is phenomenal. For a woman all about numbers, I find the numerous slides with railcar types and analytics quite fascinating. The data, particularly from Railinc – David Humphrey, really tells the story why there are so few railcars available in the market today (see chart below). Even more interesting is bringing this knowledge back to our team and further analyzing it to maximize benefits for our customers, our railcar asset fleet, and our company.

When it comes to rail and finance, the two are perilously tied together. Railcar supply is ferociously tight, and demand is at a fever pitch. Expect to pay more for your railcars whether you lease or buy. It's a great time to sell and explore that sale-leaseback opportunity you've been hearing about! I recommend you call Kristen Kempson with your railcar specific needs – be it lease, buy, sell, or trade.



Talk Depreciation, Taxes, Finance & Railcars with Yvonne Lufborough:
(406) 234-2754 | yvonne@tealinc.com

Rail Strategy & Planning

Julie Mink, President

In a recent conversation with a customer, we explored different pain points in the supply chain process. I'd asked what success looks like for the company when the supply chain is running efficiently. The answer was on par with what those of us in the supply chain already know. When the supply chain is running efficiently, company make intentional decisions and thus impactful success can be accomplished.

Shannon put it best in her topic above and the customer agreed that in her business, supply chain is the conduit between the sales department (revenue generation) and the finance department (revenue collection). And therein lies the delicate balance of ensuring that the supply chain plans, strategizes, and operates in a manner such that the sales department can be successful. Far too often, we see a disconnect between the orders that are sold and the orders that are delivered and that places the sales department, the supply chain, and the finance department in conflict. Delay those deliveries too much and the finance department collects less and less revenue or more and more expenses. The advice here: ensure that your sales department and your supply chain / logistics departments work together extremely closely. Evaluate the high-level processes that are being used. Before a sales commitment is being made, is the supply chain confirming available inventory, taking into account other contracted and potential orders, confirming that you have the labor available to load the order, ensuring that you have the trucks, railcars, and operators required to move the order, and planning that the order out as timely as possible. For the most part, those are the pieces you can control. It's equally as important to plan for what you cannot control. Be sure the sales department understands any restrictions or delays that the supply has historically had and be sure that the supply chain is looking ahead and planning for the unforeseeable. Are there potential delays that you don't see that you should plan for? What if the order isn't prepared for loading before it's time to leave? What if you don't have the right equipment (loaders, trucks, railcars, power, etc.) to get the order released from your facility on time? Could weather delay the order and how do you plan around it?

While you can't plan for every unforeseen, you can do your best to plan for those "what if's". My advice? Be sure your sales department and supply chain are working extremely closely. Ensure the culture of your organization fosters a "win together" mentality. Pair sales and supply chain together for sales calls (phone, Zoom, in the field) and ensure they arrive with eyes wide open looking for potential roadblocks. When both departments are working together, the possibility of recognizing success becomes in focus.

Explore Rail Strategy & Planning Opportunities with Julie Mink: (720) 733-9922 | julie@tealinc.com

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Planning for 2023: An Industry Outlook

with Darell Luther, Founder & CEO

We're at the point that 2023 is beginning to define itself. As we look into an array of industries serviced by rail, we see a glimmer of hope that there will be some resemblance of order to the transportation business. As we've seen labor an ongoing issue, we really saw that railroad labor was really management negotiations where the labor wanted to be treated more like partners than laborers' and management realized that it was beneficial to bring them into the fold. We through those tough times without any extended strikes was in and of itself a win to both parties. Trained and willing labor continues to be a challenge and I suspect it will be so through all of 2023.

The next defining set of circumstances the railroads will continue to face is the political climate if which the rail industry finds itself. The dilemma of pleasing Wall Street and private equity activists, providing good service to customers and being subject to every congress person who wants to make a name for themselves makes simply running the railroads difficult. Not that the railroads didn't need to focus on their customers – they do. This lack of focus is what really landed them in their current situation. Read below to learn more about the aggregate, coal, agriculture, scrap and rail industry. **We've highlighted railcar options tailored to specific industries.**

3250 CUBE COVERED HOPPERS
SAND, CEMENT, MINERALS, ETC.

The Aggregates Industry. This industry is relatively methodical in nature. It's hard to make sea changes when your business is digging thousands of tons of rock, stone, sand and gravel out of a hillside or mountain and then sorting it into the correct pile for further processing or distribution. A look at the machinery and equipment presented at the ConExpo -Con/Agg show that efficiencies for processing are continuously improving. These mining and processing improvements will make an impact on the profitability of the overall business and will allow miners and producers to compete more vigorously. The Infrastructure Bill pledging $110 billion in infrastructure in America continues to play a key role in the growth of the industry. The shovel ready projects should increase in 2023 setting the stage for an uptick in growth.

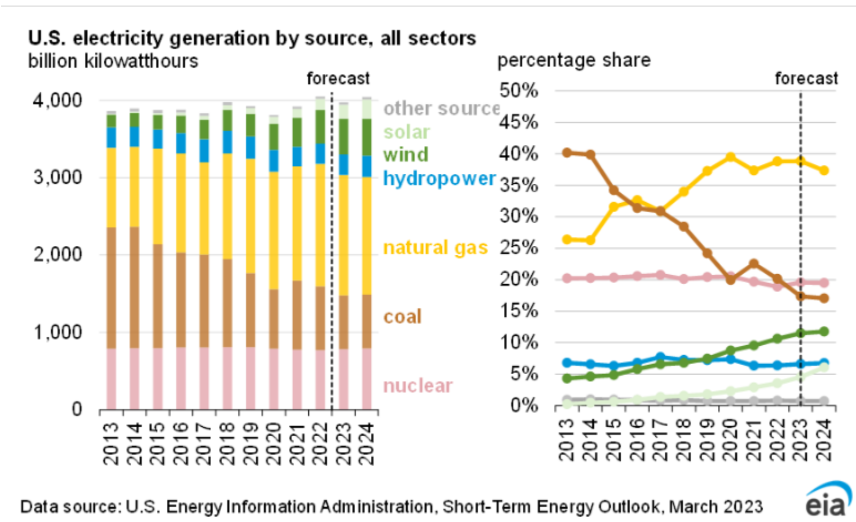
A big push being championed by California Construction and Industrial Minerals Association, is to minimize the distance of hauling aggregates to decrease the carbon footprint caused by truck transportation. On longer hauls this action points directly to the need for railroad transportation of aggregates even at lower mileages. Some of larger aggregate producers currently have a rail component to their distribution network. A continued focus on expanding this network has more benefits than originally thought. If you're in the industry it would be wise to follow this new focus as every industry is trying to figure out carbon sequestration and how to minimize their carbon footprint. According to the USGS the value of nonfuel minerals rose a total value of $3.6 billion from a base of $94.6 billion to a rate of $98.2 billion. Crushed stone accounted for 21% of the gain the single biggest contributor. This type of growth is steady and repeatable. The report can be found [here.]

Rail will play a significant role in the delivery of these rock products.
Do you have enough railcars or too many?

The Coal Industry.

Energy demand for coal in 2023 is projected to be slightly off the trend set in 2022. According to the Energy Information Administration (EIA) U.S. coal production increases in the forecast by 20 million short tons in 2022 to 598 million short tons for the year. EIA expects that coal production will fall to 581 million short tons in 2023. This 17 million short ton decrease is anticipated through scheduled power plant closure. As we've seen in the past this number may be influenced by the price of natural gas.

Nonetheless the transport of coal by rail continues to be a challenge. No commodity is left untouched when it comes to meeting rail shipment demands and coal is not the exception here.



Tealinc Has the Ideal Railcars Available!

The Scrap Industry.

A good measure of scrap industry current and anticipated demand is dependent upon the demand created by the steel industry. According to the World Steel Association (WSA) the following top ten steel-producing steel countries and their steel output are:

Country	MMT	Change (%) Jan 2022-Jan 2023
China	79.5	+2.3
India	10.9	-0.2
Japan	7.2	-6.9
United States	6.5	-6.8
Russia	5.8	-8.9
South Korea	5.5	-9.8
Germany	2.9	-10.2
Brazil	2.8	-4.9
Iran	2.7	+22.7
Turkey	2.6	-17.6

Demand for finished steel has dropped significantly when compared to the same time in 2022.

Scrap itself has trended higher than the demand would indicate. The demand may not be getting fulfilled do to delivery around the world. According to the Federal Reserve of St. Louis prices in February 2023 trended around the $350 gross ton range with regional differences across the U.S. Our sources tell us they expect intermittent price changes but are confident they will stay strong for the foreseeable future.

Industry Updates: Surface Transportation Board

with Darell Luther, Founder & CEO

The Surface Transportation Board continues to push on employment and service performance data weekly submissions by the Class 1 railroads. This directive has been in place since October 28, 2022 and will be required thru Mary 5, 2023. To review the performance measure submissions click here. The STB has really pushed the Class 1 railroads by literally intensely scrutinizing nearly all their moves. This oversight was not an overnight occurrence. Many shippers had pushed for some type of service oversight for years. Now that the STB is involved its burdensome for the railroads but necessary to hold them accountable.

The STB has a plethora of information. If you really want to learn or just review the political oversight of railroads a search on the STB site will give you an idea of the regulatory process in rail transportation.

Industry Updates: Rail Traffic Data

with Darell Luther, Founder & CEO and the AAR data

Statistically rail traffic has trended down when comparing 2023 with 2022. Is it a combination of natural disasters, service issues or a deflating economy. I'd appreciate your opinion. I don't think we've ever seen so much widespread snow, rain, tornadoes and earth quakes. Service is certainly a challenge partially not because of anything the railroads did or did not do and partially for what they did do and are now trying to play catch up on (labor).

U.S. Rail Traffic[1]

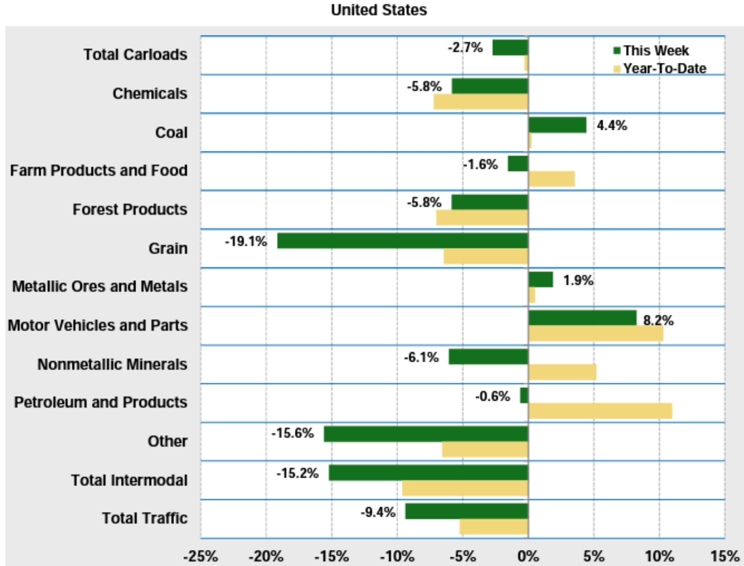
Week 11, 2023 – Ended March 18, 2023

	This Week		Year-To-Date		
	Cars	vs 2022	Cumulative	Avg/wk[2]	vs 2022
Total Carloads	**227,454**	**-2.7%**	**2,523,553**	**229,414**	**-0.3%**
Chemicals	32,175	-5.8%	352,779	32,071	-7.2%
Coal	67,912	4.4%	734,177	66,743	0.2%
Farm Products excl. Grain, and Food	16,847	-1.6%	186,681	16,971	3.5%
Forest Products	9,594	-5.8%	102,192	9,290	-7.0%
Grain	18,743	-19.1%	242,222	22,020	-6.4%
Metallic Ores and Metals	20,534	1.9%	222,637	20,240	0.5%
Motor Vehicles and Parts	15,091	8.2%	151,659	13,787	10.3%
Nonmetallic Minerals	29,265	-6.1%	324,357	29,487	5.2%
Petroleum and Petroleum Products	9,124	-0.6%	114,428	10,403	11.0%
Other	8,169	-15.6%	92,421	8,402	-6.6%
Total Intermodal Units	**226,046**	**-15.2%**	**2,556,114**	**232,374**	**-9.6%**
Total Traffic	**453,500**	**-9.4%**	**5,079,667**	**461,788**	**-5.2%**

[1] Excludes U.S. operations of Canadian Pacific, CN and GMXT.
[2] Average per week figures may not sum to totals as a result of independent rounding.

Trends, 2023 vs 2022

United States



Industry Updates: Finance

with Darell Luther, Founder & CEO

The Federal Reserve Board (FRB), through the Federal Open Market Committee (FOMC), continues to push interest rates up this time a little short of the original plan rates grew by ½ point versus the anticipated ¾ point. The target rate is between 4.75% and 5.0%. The FOMC impact on lending rates is tremendous seeing industry's borrowing points move from around 3% to 4% to nearer 7% to 9% essentially doubling the cost of capital for the company that runs on the ability to service their debts. These companies attempt to find ways to pass this cost increase on to their customers but that in turn upsets demand for a product in many cases reducing the supply requirements.

Rail shippers, railroads, rail car lessors and builders are attempting to adjust to these cost increases. Builders are passing the cost of the increases on to their customers in some cases requiring tens of thousands of dollars in increased railcar building costs. This in turn requires that the Lessor increase their lease rates on rail equipment to be able to recoup their investment which subsequently increases the value / lease rates of used railcars enhancing the prior investments made for them. Rail shippers which ultimately absorb this cost then have to push on the consumer or end use customer to offset the increase. There is a good deal of uncertainty in the financial markets with the threat of a recession and financial failures or near failures like the bit coin implosion on the banking system, confirmation of Federal Deposit Insurance Corp ability to fund failed bank deposits and a whole host of other influencing factors.

According to ABFJournal. The Fed raised rates seven times in 2022. Last June, the Fed began its efforts to curb rising inflation by increasing the federal funds rate to a range between 1.5% and 1.75%, which, according to *Yahoo Finance*, was "the largest move [the Fed] has made in a single meeting since 1994." The Fed then followed up with an increase of the same magnitude in July, increasing the target range to 2.25% to 2.5%, followed by another three-quarter-point increase in late September and yet another in November. The Fed then increased rates for a seventh time in December, although by half a point instead of the three quarters of a point increases it issued in the other actions throughout the year.

The FRB publishes a very high-level state of the economy. It is an interesting read, you can find it through the Board of Governors. There is a very good website Trading Economics https://tradingeconomics.com/stream that is worth looking at if you're interested in what's going on in the financial world.

About Tealinc

How will Tealinc create value with you?

Tealinc, Ltd. is dedicated to creating value for our customers. We specialize in Rail Transportation Solutions by leasing, buying, selling, consulting and managing rail fleets with our customers long term and short-term requirements in mind. We participate in nearly every industry supported by rail; lease, purchase and sell nearly every type of freight railcar; and provide management and consulting services for both novice and experienced rail shippers. Where will Tealinc create value for you?

Buy, Sell, Lease, Trade Railcars

Rail Fleet Management Services

Rail Strategy & Business Development