

In This Issue

- Railroad Updates
- AAR Updates
- Railroad Traffic
- Industrial Inside
- Financial Focus
- The Edge

Visit us at:

www.tealinc.com

**CSXT Fuel Rate
Adjustment Will
Change from 20.4%
to 16.4% November
1, 2006**

**The U.S. Class I's
continue to hire
more workers to
keep up with traffic
demand**

Railroad Updates

Due to lower fuel cost, the current CSX Transportation fuel surcharge of 20.4%, which became effective October 1, will change to 16.4% for shipments having a bill of lading dated on or after November 1, 2006.

The 16.4% fuel surcharge for the month of November is based on the West Texas Intermediate Fuel Oil (WTI) average price of \$63.87 per barrel as published in The Wall Street Journal for the calendar month of September 2006.

Visit the CSX at:

www.csx.com

U.S. Class I's Boost workforce in September

The U.S. Class I's continue to hire more workers to keep up with traffic demand. As of mid-September, the Class I's employed a total of 168,101 workers, a 0.5 percent increase compared with August and 2.7 percent rise compared with September 2005.

Maintenance of equipment and stores employees posted the largest month-over-month increase, rising 0.5 percent to 30,091 compared with mid-August's total. The workforce segment also increased 0.6 percent compared with September 2005 data.

Maintenance of way and structures' ranks rose 0.3 percent in September to 35,685. On a year-over-year basis, the segment increased 3.4 percent. Meanwhile, executives, officials and staff assistants rose 0.3 percent to 10,026 and climbed 5.5 percent compared with 2005.

Three workforce segments posted month-over-month declines. Professional and administrative staff decreased 1.2 percent to 13,688, transportation (other than train and engine service) staff fell 0.2 percent to 7,279 and transportation ranks dropped 0.01 percent to 71,332 compared with mid-August's totals. On a year-over-year basis, professional and administrative staff increased 0.3 percent and the transportation workforce rose 3.7 percent. Transportation (other than T&E) staff decreased 1.3 percent compared with September 2005 data.

Read the entire article:

<http://www.progressiverailroading.com/prdailynews/news.asp?id=9676>

AAR Updates

In recent years, bulkhead flat cars equipped with center partitions and tie down cables or straps, have become the primary car of choice for shipment of forest products. Using loading Figures 54, 54-A and 54-B, these freight cars, commonly referred to as centerbeams, have resulted in cost savings for shippers and reduced the number of shifted loads

Immediately eliminate the use of plastic snow fence, chicken wire mesh, and transportation-type package wrap as methods to prevent lumber telescoping

The compression package band method as shown in the attachment to this circular is now the only acceptable method to prevent telescoping

and enroute set-outs.

While these cars represent an improvement over previous loading methods, one problem has been the telescoping of lumber products from the top packages in the load adjacent to a void space when the top layer is not completely filled with packages. In 2003, Circular Letters c-9681 and c-9767 announced the application of either a fencing-type mesh, plastic or wire (e.g. poultry wire or snow fencing), over the void end of each package adjacent to the void. These circulars also authorized the use of transportation-type package wrap as an acceptable substitute. Both of these methods were tested on the Vibration Test Unit at the Transportation Technology Center in Pueblo, CO.

A member railroad has reported that a piece of lumber telescoped out of a top layer package with plastic snow fencing and struck a locomotive moving in the opposite direction. Follow-up inspections of other loads found a number of cases where the snow fencing material had failed to prevent telescoping. A report has also been received of lumber telescoping through transportation-type package wrap and striking a locomotive.

This Early Warning is assigned **Severity Code 06-AAR defined** under the provisions of AAR Interchange Rule 125. Pending additional review and/or testing of the methods mentioned above, the OTLR Committee voted to ***immediately eliminate the use of plastic snow fence, chicken wire mesh, and transportation-type package wrap as methods to prevent telescoping. The compression package band method as shown in the attachment to this circular is now the only acceptable method to prevent telescoping.*** Figures 54 and 54-A, are now restricted to a maximum void space between top layer packages of no more than four feet unless the top packages on both sides of the void have a compression package band applied. Figure 54-B is similarly restricted for voids greater than two feet. A top layer package is defined as any package with no package loaded directly above. A package that is not "fully" covered by a package above, will also be considered a top package and is required to have a compression package band applied. (See detail B). Where customer requirements mandate the use of package wrap, the compression package band must be applied over the package wrap.

Note: Carriers should bring this information to the immediate attention of any customers using these loading figures.

The Open Top Loading Rules Committee is aggressively pursuing other solutions to this problem and is open to suggestions from interested parties. Please contact Mr. Charles Powell Senior Manager of Open Top Loading Rules and Equipment Standards of TTCI at 719.585.1883 or email at cpowell@aar.com for additional information.

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

U.S. Freight Rail Traffic Up in September

**September carloads
of coal, metals, grain
up; motor vehicles
and equipment,
nonmetallic
minerals, stone, clay
and glass products
down.**

**"An economy as
diverse as ours is
naturally stronger in
some areas than in
others, and the fact
that freight railroads
serve virtually every
major sector is
reflected in rail
traffic figures,"
noted AAR Vice
President Craig F.
Rockey.**

Railroad Traffic

Both intermodal and carload freight were up on U.S. railroads during September, the Association of American Railroads (AAR) reported.

The last three weeks of September 2006 were the three highest-volume intermodal weeks in the history of U.S. railroading, as railroads originated 987,903 intermodal units during the month, up 50,543 trailers and containers (5.4 percent) from the same month last year. Carload volume also rose, totaling 1,352,159 units, up 4,366 carloads (0.3 percent) from September 2005.

Eleven of the 19 major commodity categories tracked by the AAR saw U.S. carload increases in September 2006 compared to September 2005. Intermodal traffic is not included in carload figures.

Commodities showing carload gains in September 2006 included coal (up 12,667 carloads, or 2.3 percent, to 569,005 carloads); metals and metal products (up 5,339 carloads, or 10.2 percent, to 57,675 carloads); and grain (up 4,457 carloads, or 5.2 percent, to 89,935 carloads).

Commodities showing carload decreases in September 2006 included motor vehicles and equipment (down 11,602 carloads, or 12.4 percent, to 82,144 carloads); nonmetallic minerals (down 5,081 carloads, or 16.3 percent, to 26,046 carloads), and stone, clay, and glass products (down 3,753 carloads, or 8.9 percent, to 38,607 carloads).

In the third quarter, total carloads on U.S. railroads rose 1.1 percent (48,271 carloads) to 4,346,112 carloads, led by coal (up 4.5 percent, or 78,072 carloads), metals and metal products (up 13.5 percent, or 22,192 carloads), and grain (up 5.6 percent, or 15,506 carloads). Carloads of motor vehicles and equipment fell 11.0 percent (28,947 carloads) in the third quarter; carloads of nonmetallic minerals were down 12.1 percent (12,167 carloads); and carloads of lumber and wood products were down 11.7 percent (8,922 carloads).

For the first nine months of 2006, total U.S. rail carloads were up 175,983 carloads (1.4 percent) to 13,136,203 carloads. U.S. intermodal traffic was up 182,237 trailers and containers (6.1 percent) in the third quarter and was up 545,939 trailers and containers (6.3 percent) for the first nine months of 2006 to 9,203,475. Total volume after 39 weeks was estimated at 1.3 trillion ton-miles, up 2.6 percent from 2005.

"An economy as diverse as ours is naturally stronger in some areas than in others, and the fact that freight railroads serve virtually every major sector is reflected in rail traffic figures," noted AAR Vice President Craig F. Rockey. "The U.S. auto sector is not doing well right now, and that has depressed rail carloadings of automotive products. On the other hand, consumer spending still appears to be solid - a factor behind the record-setting intermodal traffic in September."

**World cement
consumption growth
expected to
continue**

**Demand for cement
in China will rise 5.1
percent annually
through 2010 to
reach 1.3 billion
metric tons**

**Concrete product
producers will
remain the largest
market for cement
in China**

For just the week ended September 30, the AAR reported the following totals for U.S. railroads: 345,299 carloads, up 2.4 percent (7,929 carloads) from the corresponding week in 2005, with loadings down 4.0 percent in the East and up 8.0 percent in the West; intermodal volume of 258,511 trailers and containers, up 4.9 percent (11,981 units) and the highest week on record; and total volume of an estimated 34.8 billion ton-miles, up 3.6 percent from the equivalent week last year.

Visit the AAR at:

<http://www.aar.org>

Industrial Inside

Led by an expected 8.5% growth in China, world-wide portland cement consumption will increase 5.6% this year followed by a rise of 5.5% in 2007—an average of nearly 130 million metric tons annually—according to a new forecast by the Portland Cement Association (PCA).

The report cites growth conditions in the developing world, particularly China, as playing a critical role in consumption trends. Roughly 20% of cement consumption growth will occur outside of China and the industrialized world, mostly in other Asian countries, the Middle East, Eastern Europe, and South America.

“While the major developed economies like the U.S. and Western Europe have generally performed well,” PCA Chief Economist Ed Sullivan said, “world economic growth has been characterized by buoyant growth outside these industrial countries.”

Growth in cement consumption is expected to be in par with estimates for planned capacity expansions and paralleling usage, most expansions and plant updates will occur in China.

Demand for cement in China will rise 5.1 percent annually through 2010 to reach 1.3 billion metric tons, driven by moderating but healthy growth in construction expenditures. China will remain the largest national consumer of cement in the world, accounting for close to half of global cement consumption in 2010.

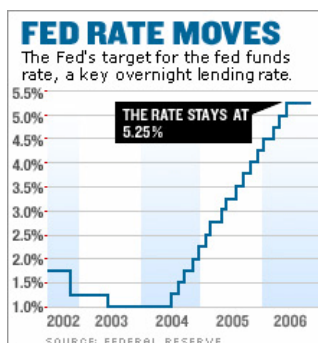
Cement demand in the ready-mix concrete market will post the strongest gains of any market category through 2010, increasing 11.2 percent annually through 2010. Market growth will continue to benefit from the government’s implementation of Decree #341, which bans onsite concrete production in over 200 cities across China in order to reduce environmental damage from onsite cement mixing and improve the quality of concrete used in construction.

Concrete product producers will remain the largest market for cement in China, accounting for 36 percent of all cement consumption in 2010. Demand for concrete products, including blocks, bricks, culverts, floor and wall panels, noise barriers, pipes, poles and various other items, will be stimulated by the growing popularity of precast concrete products among construction contractors. Many concrete

Year-to-date, U.S. cement use is up 5.6 percent over 2005 levels

Central bank policy-makers hold rates steady at 5.25 percent for the third straight time

Despite national economic slowdown, experts predict 2007 cement consumption of 129.6 million tons, increase of 2.3 percent



products can be better or more cost-effectively fabricated in specialty plants, instead of being cast on site.

North American cement consumption rose 2 percent in the second quarter of 2006, compared to the same period for 2005, according to the *Second Quarter 2006 Survey of Portland Cement Consumption by User Group* report recently released by PCA's Market Research Department. Cement consumption for the second quarter was 25.32 million metric tons.

Ready-mixed was the largest cement consumer with 72.8 percent market share, followed by brick and block (3.9 percent), all other consumers (3.7 percent), and precast (3.0 percent). The report includes a historical perspective of North American consumption by 16 user groups for the past six years. Information on CKD for soil-cement paving and waste solidification/stabilization projects was also reported. For the complete report, visit www.cement.org/market

Year-to-date, U.S. cement use is up 5.6 percent over 2005 levels. PCA's summer projections indicated that second-half weakness in residential would push the 2006 growth rate to 2.3 percent and to 1.2 percent in 2007.

"Higher interest rates, oil prices, and inflation will slow consumer spending," Edward Sullivan, PCA chief economist said. "These forces will result in a harsh decline in residential building and slow the recovery in nonresidential construction activity in 2006 and 2007." Sullivan also expects slower job growth to contribute to a more cautious approach to public spending.

Although a slowdown of the national economy is expected, the Portland Cement Association (PCA) reports that experts predict cement consumption in 2007 will reach 129.6 million tons, an increase of 2.3 percent compared to 2005 levels, extending a three-year period of continual growth.

Article adapted from:

http://www.cement.org/newsroom/Intl_Forecast_101606.asp,

<http://www.epa.gov/ispd/pdf/2006/cement.pdf>

<http://www.mindbranch.com/products/R154-1607.html>

<http://www.gostructural.com/article.asp?id=1285>

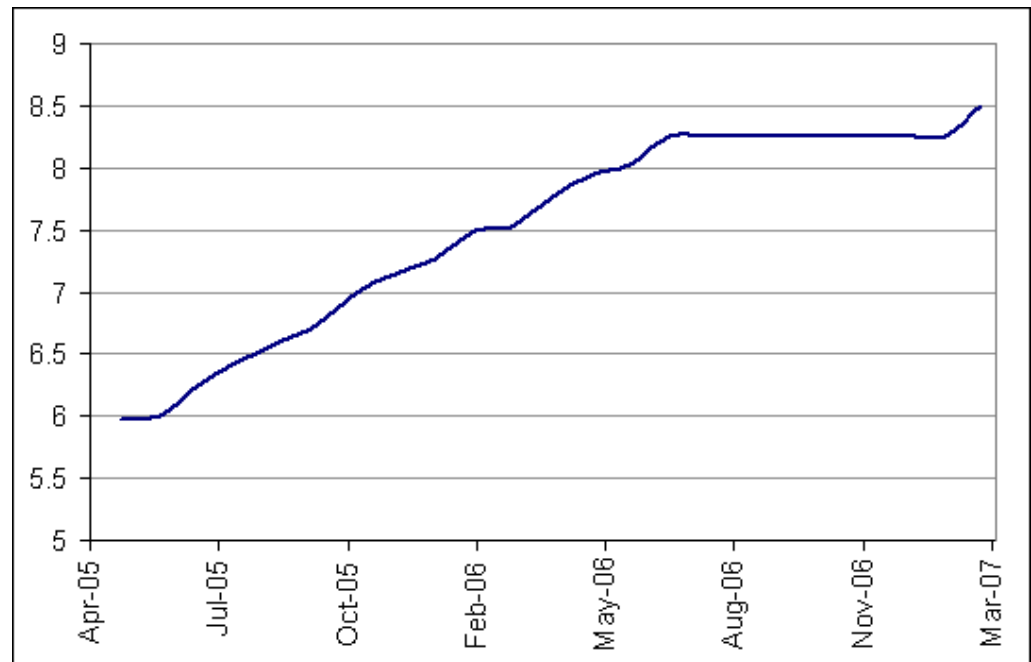
Financial Focus

The Federal Reserve left interest rates unchanged during their October 25 meeting for the third straight time. The Federal Open Market Committee said during its meeting "Economic growth has slowed over the course of the year, partly reflecting a cooling of the housing market. Going forward, the economy seems likely to expand at a moderate pace."

While the Federal Funds rate is currently sitting at 5.25 percent and speculation whether the Fed's will raise or lower their rate based on a number of economic factors, the Prime Rate that most banks use for

**Next prime rate
increase expected to
be to 8.50 percent in
March 2007**

their most creditworthy customers remains stagnant at 8.25 percent where it has been since June 29, 2006. Fluctuations in the Prime Rate remain to be seen as the Fed's adjust their rate. Experts predict the Prime rate will sit at 8.25 percent until March of 2007 where it will be increased to 8.50 percent.



Learn more at:

<http://www.forecasts.org/prime.htm>

The Edge

The Railroads made it clear at the September 13, 2006 North American Railroads Customer Forum that they have and will continue to focus on network velocity and capacity to continue to meet shareholder expectations.

Velocity will be driven by a multitude of factors which can be summed up as hard assets (mow, locomotives, facilities, rail equipment) and hand-offs. Hard asset requirements are relatively easy to determine when one looks at volumes of current and future traffic growth over individual corridors. The more difficult item to determine are the hand-offs.

Hand-offs are much the same as one would imagine if one was running a relay race. Each person must pass the baton to the next for a relay race to run smoothly. If you're the running the first leg you want to be sure that your team is in place and ready to go. If you're running the first leg you're probably the shipper. That means that you should have established a plan through preparation, e.g. does your shipment size match that of the railroad requirements to be of interest (e.g. one car versus ten cars at a time) to the railroad, are your facilities easily accessed by railroad switch crews, can you load 24x7 to facilitate quick turnarounds when required, etc. After you've been through the planning and preparation stage and the gun goes off you need to switch into the execution stage. At this point are you seamlessly integrated with the railroad? Are you conducting transactions via EDI, do you have access to the waybill information so that you may track your shipments and assist the railroad with monitoring your traffic and do

you have a partner in the railroad to whom you can communicate to facilitate consistent improvement?

If you're running the second leg you're probably the railroad. The railroad position is very clear. Hauling large trains, safely, economically and quickly from point A to B is the role they'll play on your team. Don't expect anything more and you won't be disappointed but also don't expect anything less.

If you're running the last leg you're the receiver. You have the same responsibility as the shipper. You're quick turnaround on an asset is the railroads next load for movement to a shipper to start the cycle again.

I realize that we continue to preach, "Go Faster (safely)" but it really is where the dollars are hidden and the races are won. We'd encourage you to review the presentations that were made by the Class I Railroads at the North American Railroads Customer Forum. They are on the AAR web site at www.aar.org. The message they are conveying is clear, "Go Faster (safely)".

We look forward to earning your business!